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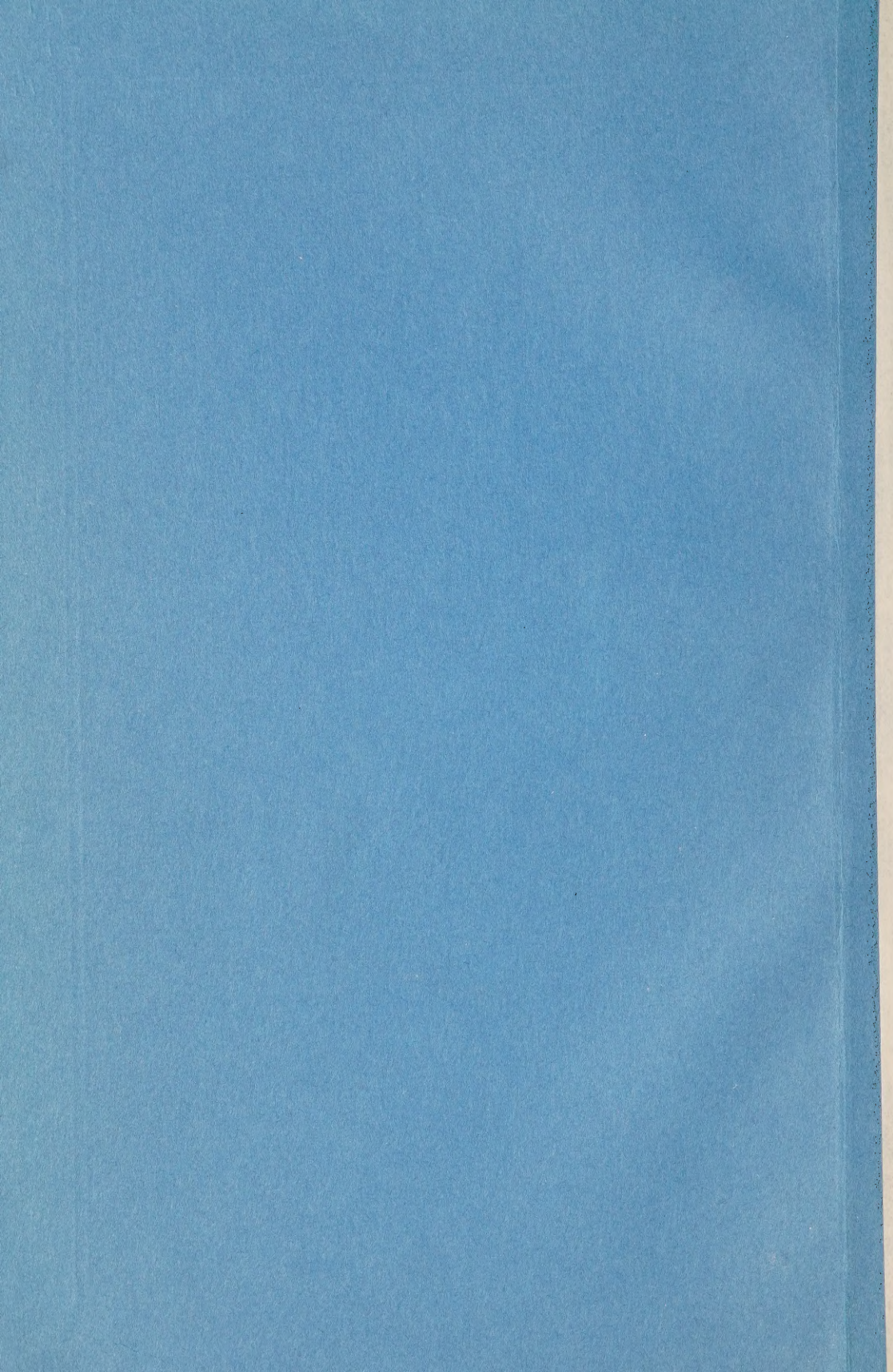
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REPORT
OF THE
ROYAL COMMISSION
ON
CO-OPERATIVES



OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1945



REPORT
OF THE
ROYAL COMMISSION
ON
CO-OPERATIVES

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EDWARD ELIZABETH
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1952



ORDER-IN-COUNCIL

P.C. 8725

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 16th November 1944.

The Committee of the Privy Council have had before them a report dated 10th November, 1944, from the Minister of Finance, representing that doubt has arisen as to the effect of the Income War Tax Act and The Excess Profits Tax Act, 1940, in the case of co-operative corporations, associations and societies both as regards the general principles intended by Parliament to be applied and the effect, in many matters of detail, of the said taxation statutes upon these co-operative organizations and their members;

That this doubt, both as to the general principles, intended to be applied and the effect of the aforesaid statutes, has created serious problems in connection with the administration of these taxation statutes and a considerable measure of uncertainty in the business operations of some of the co-operative organizations themselves; and

That a full public inquiry into the application of income and profits tax measures to organizations organized and operated on a co-operative or mutual basis and organizations claiming so to be organized (hereinafter referred to as co-operatives) and into the comparative position in relation to taxation under such measures of persons engaged in business in direct competition with co-operatives should be undertaken without delay.

The Committee, therefore, on the recommendation of the Minister of Finance, advise,

1. That the Honourable Errol M. W. McDougall, a Judge of the Court of King's Bench, Quebec; Mr. B. N. Arnason, Regina, Sask., Mr. G. A. Elliott, Edmonton, Alta., Mr. J. M. Nadeau, Montreal, P.Q.; and Mr. J. J. Vaughan, Toronto, Ont., be appointed commissioners under Part I of the Inquiries Act to inquire into —

- (a) the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940, and
- (b) the organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with co-operatives,

and report, in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and The Excess Profits Tax Act, 1940 to co-operatives and to persons other than co-operatives in respect of methods of doing business analogous to co-operative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest;

2. That the Honourable Mr. Justice McDougall, Court of King's Bench, Quebec, be chairman of the said commissioners;
3. That the commissioners be authorized to engage services of such technical advisers or other experts, clerks, reporters and assistants as they deem necessary or advisable and also the services of counsel to aid and assist the commissioners in the inquiry;
4. That the commissioners be authorized to determine the places where the inquiry shall be conducted and the manner of conducting the proceedings in respect of the inquiry;
5. That the commissioners be directed to report to the Governor in Council.

A. D. P. HEENEY,

Clerk of the Privy Council.

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THE PRESIDENT OF THE PRIVY COUNCIL

Sir:—

Pursuant to the terms of Order-in-Council No. 8725, approved under date of November 16th, 1944, we, the Commissioners therein appointed under Part I of the Inquiries Act have the honour to submit herewith, our Report.

In order to secure the information considered necessary to the accomplishment of our task, upon organization it was decided to hold a number of sessions of the Commission throughout Canada, at which interested persons would be afforded the opportunity of presenting their views. With this end in view public notices were issued calling upon all such persons to present written briefs of their submissions with indication of the place at which they would desire to appear personally in support thereof. A schedule of hearings was prepared and publicised, announcing sessions of the Commission for the cities of Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec, Moncton and Halifax, indicating the dates of such hearings and outlining the subject matter of the enquiry by citation from the Order-in-Council in question.

In response to such advance notices, briefs to the number of about 175 were filed with the Commission by co-operative associations, Boards of Trade, Canadian trade associations, corporations, firms, individuals and public bodies, containing the submissions which it was desired to bring to our attention. Beginning in Vancouver on January 15th, 1945, the Commission proceeded to conduct the enquiries in open court, by hearing such evidence in support of the factual issues involved as the various appearers desired to submit. The Commission was assisted by counsel and the interested persons were afforded the opportunity of appearing in person or by counsel. With the object of giving to each and every citizen ample facility freely to put forward his views, the proceedings were conducted as informally as possible, compatible, however, with the importance and gravity of the matter in issue. So great was the interest aroused, as evidenced by the number of briefs received, that the Commission was unable to deal with all the submissions presented in the estimated and allotted time for each center. It was, accordingly, found necessary to postpone to a date beyond the determined schedule, such of the submissions as could more advantageously be heard in Ottawa. It was, thus, not until May 3rd, 1945, that the formal hearings were concluded in Ottawa, with an understanding that those persons or bodies who notified an intention of presenting a written or oral argument would be accorded an opportunity so to do.

The enquiry was not confined to the information elicited at these hearings but was extended to other sources such as interviews with Government officials, the very considerable literature upon the subject, public and private records and the answers to a general questionnaire sent out to a great number of co-operative organizations which had not submitted briefs, the response to which was most gratifying.

During the course of our hearings, reference was constantly made to the manner in which this subject had been dealt with in Great Britain and many of the submissions urged the adoption or adaptation of the British system of taxing co-operative associations to our Canadian conditions. The information available to us, upon this aspect of the subject, since the date of the amendment made in 1933 to the British Income Tax statutes, was inadequate to permit of reaching definite conclusions. We, accordingly, decided that three members of the Commission should proceed to Great Britain for the purpose of pursuing our enquiries into that phase of the question. Leaving Canada on May 19th,

these members of the Commission spent some six weeks in Great Britain, visiting the principal centers of co-operative activity at London, Manchester, Glasgow and Edinburgh. Informal meetings were held with officials of the Board of Inland Revenue, the principal co-operative organizations, representatives of various non-cooperative groups, economists, and writers, upon the subject of the nature and growth of co-operatives in Britain, their organization, methods of operation, the situation as to the taxation of such enterprises at the present time and the attitude of the interested parties thereto. During this period the two remaining members of the Commission, accompanied by our Counsel, paid a visit to the United States and there made a similar study as to the extent and form of organization of the co-operative movement in that country, and enquired into the manner in which the taxation laws were applied thereto. Annexed to the Report, as appendices, will be found summary reports of these special enquiries.

The record, which is transmitted herewith, comprises copies of the briefs submitted, together with a complete transcript of the evidence adduced and such supporting exhibits as may have been filed. In some instances, where separately put forward, the arguments of counsel are also included.

May we be permitted to express our indebtedness to our Counsel, Mr. E. T. Parker, K.C., whose valuable assistance has been unstintingly furnished. To the Registrars of the Commission, Major H. D. Woods and Mr. J. A. Chapdelaine and our Executive Assistant, Colonel G. W. Ross, we are extremely grateful for their assiduous and efficient labours. In like manner we express appreciation of the signal assistance afforded by Mr. J. G. Glassco, F.C.A., of the firm of Clarkson, Gordon, Dilworth and Nash, and his assistants upon the intricate accounting problems encountered, and to Professor V. C. Fowke of the University of Saskatchewan for his assistance in preparing Appendix A. We are also indebted to the members of the staffs of the various Government Departments, both Provincial and Dominion, to whom we applied for information, for their willing co-operation. The following were particularly helpful: Mr. W. F. Chown of the Economics Division, Department of Agriculture; Mr. I. S. McArthur, Acting Chief of the Agricultural Branch, Dominion Bureau of Statistics; Mr. A. C. Steedman, Chief, Merchandising and Services Branch, Dominion Bureau of Statistics; Dr. Maurice Ollivier, and officials of the Department of National Revenue and of the Department of Insurance.

Nor must we fail to acknowledge as well the assistance of the Librarians of the Bank of Canada, of the Department of Agriculture, and of Parliament.

Finally, to the faithful and essential services of the members of our staff we desire to record our appreciation.

SCOPE OF ENQUIRY

To avoid misconception as to the precise scope of the present enquiry and to define the limits of the task entrusted to the Commission, it may be well, at the outset, to emphasize the directive terms of Order-in-Council (No. 8725). The Commission is authorized "to enquire into:—

- (a) the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and The Excess Profits Tax Act, 1940, and
- (b) the organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with co-operatives,

and directed to

report, in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and The Excess Profits Tax Act, 1940 to co-operatives and to persons other than co-operatives in respect of methods of doing business analogous to co-operative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest;

It will thus be appreciated that the Commission has no mandate to recommend changes in the general principle of income tax legislation as presently in force in Canada, nor is its advice sought in regard to the general policy animating the present Income War Tax structure. The mission with which we are entrusted is confined to recommending, if we consider it desirable, amendments to the existing legislation only in relation to the comparative position of certain organizations and their direct competitors. In the following pages, it will be sought scrupulously to remain within the ambit of the task so assigned.

The law with which we are presently concerned is contained in the Income War Tax Act (1917 c. 28, as amended) and The Excess Profits Tax Act, 1940 (1940, ch. 32 as amended).

The general provisions of the Income War Tax Act relevant to the present discussion are the following:

Section 2, subsection 1, paragraph (h) which is as follows:

"person" includes any body corporate and politic and any association or other body, and the heirs, executors, administrators and curators or other legal representatives of such person, according to the law of that part of Canada to which the context extends".

Section 3, which is as follows:

"For the purposes of this Act, 'income' means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or else-

where; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source....."

The relevant sections of The Excess Profits Tax Act, 1940, are Section 2, subsection 1, clauses (e), (f), and (g), which are as follows:

- (e) 'person' includes any body corporate and politic and any partnership, association or other body, and the heirs, executors, administrators and curators or other legal representatives of such person, according to the law of that part of Canada to which the context extends.
- (f) 'profits' in the case of a corporation or joint stock company for any taxation period means the amount of net taxable income of the said corporation or joint stock company as determined under the provisions of the Income War Tax Act in respect of the same taxation period...
- (g) 'profits' in the case of a taxpayer other than a corporation or joint stock company, for any taxation period, means the income of the said tax payer derived from carrying on one or more businesses, as defined by section three of the Income War Tax Act, and before any deductions are made therefrom under any other provisions of the said Income War Tax Act."

and Section 2, subsection 2 which is as follows:

"Unless it is otherwise provided or the context otherwise requires expressions contained in this Act shall have the same meaning as in the Income War Tax Act, and definitions contained in the said Income War Tax Act shall apply in this act."

and Section 7, paragraph (a), which is as follows:

"The following profits shall not be liable to taxation under this Act:—

- (a) The profits of taxpayers referred to in paragraphs (d), (e), (f), (g), (h), (i), (k), (m), (p), and (q) of section four of the Income War Tax Act."

The sections specially applicable to Co-operative Associations, Credit Unions and Mutual Fire Insurance Companies are quoted in those sections of the Report which relate to these various organizations.

STATEMENT OF PROBLEM

The question submitted for our consideration is not whether individual co-operators should be subjected to Income Tax. They are taxable at the present time. The question is:— Are the associations or incorporated bodies into which co-operators have banded themselves together for the purpose of carrying on their joint enterprise, in the particular circumstances applying to them, to be assessed to Income Tax and Excess Profits Tax, under the appropriate statutes, as such distinct entities in the same manner as other corporate bodies are taxed thereunder, independently of their constituent membership, and, if so, to what extent? Is there justification, in the public interest, for the present treatment of the co-operative form of enterprise in a manner different from that accorded to its non-cooperative competitor?

The answers to these questions will involve analysis of the nature of the income earned by co-operative associations and a conclusion as to what part

thereof, if any, constitutes taxable income of the association as distinct from its membership under the statutes in question, excluding from consideration for the moment section 4 (p) of the Income War Tax Act or similar exceptive clauses.

As above indicated, we are directed:

(a) To report all facts which appear to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and The Excess Profits Tax Act, 1940, to co-operatives and to persons using similar business methods; and

(b) To make such recommendations for the amendment of existing laws as we consider would be justified in the public interest.

In view of the lengthy enquiries made and the mass of material collected it will, we fear, be necessary to report in some detail the facts elicited in order to establish the basis upon which recommendations may be founded. In reporting these facts and making these recommendations, it is convenient to classify the organizations which come within the scope of our enquiry into the following groups :

1. Co-operative associations and their direct competitors.
2. Credit unions and their direct competitors.
3. Mutual fire and casualty insurance organizations and their direct competitors.

Co-operative associations are treated in Part I of this Report, credit unions in Part II and mutual insurance organizations in Part III. In order to facilitate reading, the relevant factual conclusions are stated in the main body of the Report. More detailed studies supporting these conclusions are to be found in the appendices.

Though it is convenient to treat these three groups separately, nevertheless the problems involved have certain elements in common. These problems have been studied from the point of view outlined in the following paragraphs.

THE NATURE OF THE INCOME TAX

Even though it be obvious, we believe it will be well to point out at the outset that the Income War Tax and Excess Profits Tax are taxes on incomes of persons, whether individual or corporate. The amount of the tax in each case is calculated with reference to the income of the taxpayer.

In the second place, the taxes in question relate to the money value of net income produced. We consider that the tax should apply to any part of such net income as can readily be brought into relationship with the measuring rod of money unless there are strong special reasons for exempting it. Moreover, as far as practicable, the net income produced should be counted as income of each taxpayer in the period in which it is received directly or indirectly by him. Otherwise, some taxpayers will have an advantage over others in that they will be able to re-invest their income without first paying income tax thereon. Those who pay the tax when they receive the income will be able to put to profitable use only what is left after paying the tax. Those who do not pay the tax when the income is received will be able to put the whole of that income to profitable use.

In the third place, the income tax is fundamentally based upon the taxpayer's actual income and not upon the income which he conceivably might have received if he had not acted as he did. The chief exceptions to this principle at present contained in the Acts are the provisions which relate to transactions, the main purpose of which is deemed to be the evasion of the tax.

These points are of special importance in dealing with the set of problems involved in our enquiry. In each of the three classes of organizations considered, difficult problems arise—first, as to whether in the operation of each class, income is produced at all and second, if so, whose income it is.

INCIDENCE AND JUSTICE

What constitutes a “just, fair and equitable” application of the corporate income and excess profits taxes to the organizations we are considering and their direct competitors can be decided only after determining who really bears the burden of the taxes in question. Some taxes are readily shifted or passed on so that, once the shifting is accomplished, the actual taxpayer does not bear the burden of the tax. Other taxes cannot readily be passed on. We take the position that the corporate Income Tax and the Excess Profits Tax are not readily shifted but are borne initially and for the most part by the taxpaying companies and their shareholders.

We are not called upon to express an opinion as to whether the existing taxes on corporate incomes are unjustly high or unjustly low relatively to the general income tax structure, nor do we desire to do so. Accordingly, in discussing the justice of the present or proposed application of the tax to co-operative associations and their direct corporate competitors we are not to be understood as referring to this more general question.

Problems relating to justice in applying any tax on corporate income must be considered from one or other of two points of view or from both. In the first place, the tax may be regarded as a special tax imposed on the company as such in return for the advantages conferred on the company itself by incorporation. If this point of view be taken, it is important to compare the advantages conferred by incorporation on the types of organization which fall specially within our terms of reference with the advantages conferred by incorporation on their direct competitors. It is important, also, to compare the relative taxpaying abilities or faculties of the various organizations involved.

Alternatively, it has been argued that the corporate income tax is really a tax upon the shareholders of companies and not upon the company itself. From this point of view the tax on corporate incomes is regarded as an integral part of the general tax structure and it becomes important to consider whether the corporate income tax and the personal income tax taken together as a whole fall justly as between those individuals who receive their incomes through corporations, co-operative associations, mutual insurance companies or credit unions. We have not adopted either of these standards of justice to the exclusion of the other.

In any event, no solution can be fair and just unless it can be effectively administered. Unless a solution is reasonably free from uncertainty and ambiguity in its application to all taxpayers affected, that solution will inevitably give rise to unfairness and dissatisfaction.

PART
I

PART I

Co-operative Associations

SECTION I

DEVELOPMENT OF CO-OPERATIVE BUSINESS IN CANADA

Agricultural Societies with certain co-operative features have been in existence in Canada since the earliest days of agricultural settlement. Records indicate that some of these were active towards the end of the eighteenth century, but these were unincorporated, informal and mainly interested in improving the production methods rather than in undertaking buying or selling functions for their members. Organized co-operation in Canada for purchasing or marketing goes back to the sixties of the last century. About this time, creameries and cheese factories put in their appearance. Most co-operatives organized before 1900 were loosely formed organizations, without definite provisions for such features as are now considered to be the characteristics of a co-operative society. These features were not provided in company legislation, and for that reason most of the co-operatives organized before 1890 were unincorporated. As farmers acquired more knowledge of the problems involved in the marketing of their products and the purchasing of their supplies, interest in extension of activities became apparent, especially in Western Canada. The Grain Growers Grain Company was organized in 1906, the Saskatchewan Co-operative Elevator Company in 1910, and a similar organization in Alberta in 1913. Associations for the marketing of fruit were organized in Nova Scotia in 1912 and in British Columbia in 1913. The desirability of co-ordinating the activities of local marketing and purchasing groups—sometimes unincorporated—led to the organization of the United Farmers Co-operative Company, of Ontario, in 1914, and the Co-opérative Fédérée de Québec in 1922. During this period there was considerable organization of local farmers' purchasing and marketing associations, some of which provided rural store services. The organization of consumers co-operatives has not been rapid. One of the most important of these organizations, the British Canadian Co-operative at Sydney Mines, Nova Scotia, was organized in 1906.

After 1900, the provinces began to enact co-operative statutes. The province of Quebec placed on its statute books the first co-operative Act in 1906 to provide for the organization of credit unions and other co-operatives. Nova Scotia adopted a co-operative Act in 1908; British Columbia in 1911; and Saskatchewan in 1913. By 1938, every province had enacted co-operative legislation relating to the organization of co-operatives, and most provinces provided special departmental services for the administration of such legislation. There is as yet no Dominion Co-operative Act.

By the end of 1943, according to the Economics Division, Dominion Department of Agriculture, there were 1675 agricultural marketing and merchandising co-operatives in Canada, with a membership of 585,826. These included co-operatives handling dairy products, fruits and vegetables, grain and seed, livestock, poultry, honey, maple products, tobacco, wool, fur, lumber and wood, food products, clothing and home furnishings, petroleum products and auto accessories, feed, fertilizer and spray material, machinery and equipment, coal, wood and building material, as well as miscellaneous marketing and miscellaneous merchandising, not specified.

In addition, there were 67 fishermen's co-operatives; 1780 credit unions; 400 farmers' mutual insurance co-operatives, besides a group rendering mis-

cellaneous services such as hospital care, community recreation and entertainment, bus transportation, home building, trucking agricultural products, seed cleaning, rural electrification, telephone services, and agricultural production, including the co-operative ownership and operation of farm machinery.

Co-operative business in Canada can be divided into three general classes. In the first place, the associations assemble, sometimes process, and market the products of the farm and fisheries. This operation we will call *co-operative marketing*. In the second place they acquire and sell farm supplies and general merchandise. This type of activity we will refer to as the *purchase and supply* business of co-operative associations. Finally, some associations provide a variety of miscellaneous services ranging from the local distribution of electric power to the conducting of funeral homes. In carrying on these activities, different co-operative associations specialize in varying degrees. In the prairie provinces, for example, separate associations have developed for the marketing of each of the main farm products. Other associations are concerned with distributing farm supplies and general merchandise. Still others operate co-operative general stores. In Quebec, in contrast, an association typically markets a variety of farm products and, at the same time, distributes farm supplies and general merchandise.

The extent and growth of co-operative business in Canada is analyzed in Appendix A to this Report. This appendix, however, relates primarily to the business of agricultural co-operative associations and, since 1942, to the business of non-agricultural co-operative retail stores as well.

In all provinces of the Dominion some business is conducted by co-operative associations but it is unevenly distributed both as to amount and type. In 1943, for example, 29 per cent of the total co-operative business was carried on in Saskatchewan, and 15 per cent in Ontario, and 15 per cent in Alberta, while only 4 per cent was carried on in the Maritimes. (Appendix A, Table VI and Figure 2).

In terms of dollar volume of business transacted, the marketing operations of Canadian agricultural co-operatives are much larger than the merchandising operations. In 1943, marketing operations accounted for 85 per cent of the dollar volume of commercial business of Canadian co-operatives (excluding fisheries). However, the relative importance of marketing varied as between provinces from 49 per cent of the total co-operative business in Nova Scotia to 93 per cent in Manitoba. (Appendix A, Table I). The extent to which co-operatives have been developed in the marketing of agricultural or other primary products appears to be related to the degree to which the large and rigid freight, handling and other costs are interposed between the primary producer and the market for his products. When these costs are high, fluctuations in prices in the final market cause larger percentage fluctuations in the prices received by the primary producers. This is true of such commodities as grain, fish, fruits, butter, livestock, eggs and poultry. On the other hand, the difficulty of relating production to the requirements of local consumers markets has led to extensive co-operative organization in the assembling and processing of fluid milk. Furthermore, those producers of primary products whose income is most subject to fluctuation have shown the most interest in the buying of farm and other industrial supplies on a co-operative basis.

MARKETING OPERATIONS

This business extends beyond the narrow functions of assembly, purchase, sale, storage, transportation and finance and includes processing and manufacturing operations as well. Some of these latter operations are a necessary part of marketing under existing laws and industrial structures; others, while not

necessary, can be carried on conveniently or efficiently in conjunction with marketing functions in the more limited sense. These operations include pasteurizing milk, making of butter, cheese, ice cream and powdered milk; canning and preserving fruit, fish and vegetables; storing, cleaning, drying and milling grains, and even slaughtering and packing livestock. Some marketing associations have their own subsidiary printing and insurance companies. In performing these marketing and manufacturing operations the co-operative associations, like their competitors, make use of the ordinary agents of production: land, labour, capital equipment and managerial ability in much the same way as do their competitors. They also undertake risks which may result successfully or unsuccessfully for themselves or their members.

The direct competitors of the marketing associations are as diverse as the associations themselves. In the field of grain and seed, the competitors include incorporated elevator and milling companies and a variety of incorporated and unincorporated seed houses and local flour and feed mills. In the field of dairy products some of the direct competitors of co-operative associations are incorporated companies, some are partnerships and some are sole proprietorship businesses. At least one competing business is for the time being operated by a provincial government board. In the field of livestock marketing a great variety of incorporated and unincorporated businesses compete in some or all of the functions performed by co-operative associations. The direct competitors of co-operatives include also some joint stock companies whose practices resemble to a greater or lesser extent the practices of co-operative associations but who are held not to fall within the scope of section 4 (p) of the Income War Tax Act.

In 1943-44, 35% of the co-operative marketing of farm products in Canada was done in Saskatchewan, 17% in Alberta, 14% in Manitoba, 11% in Ontario, 7% in Quebec, 6% in the Maritimes and British Columbia taken together, and 10% consisted of interprovincial marketing. (Appendix A, Figure 3).

Grain and seed alone accounted for 45.5% of the agricultural products marketed through co-operatives in 1943. The six items: grain and seed, livestock, dairy products, fruits and vegetables, tobacco and poultry products, accounted for more than 98 per cent of the value of agricultural products marketed by co-operative associations in that year. Wool, maple sugar, fur, honey, alfalfa seed and other items were also handled in small amounts. In addition, co-operatives handled fishery products.

The dollar volume of the business in farm products both of co-operative associations and their direct competitors has increased considerably since 1933. A comparison of changes in the value of agricultural products marketed through co-operative associations in Canada with changes in the total cash income derived from the sale of farm products is to be found in Appendix A (Table VIII, Figure 7). It will be seen that the value of agricultural products marketed through co-operative associations in different years formed from 20% to 27% of the total cash income from the sale of farm products. (Appendix A, Table XXIII). While this proportion has varied from year to year, no marked trend is apparent. Accordingly, we conclude that neither the associations nor their direct competitors have substantially increased their proportion of the total farm products marketed during this period.

In some commodities and areas the business of the associations has expanded much more rapidly than that of their competitors. In other commodities and areas, it has lagged behind. If we exclude from consideration co-operative marketings of grain and seed and also farm income derived from the sale of grain and seed, it appears that the co-operative associations have increased somewhat their proportion of the remaining marketing business.

(Appendix A, Table XI, Figure 8). In Manitoba, and to a lesser degree in Ontario, Quebec and the Maritimes, the associations appear to have increased their proportion of total farm marketing; in British Columbia, there is no noticeable change in the proportion of total products marketed through the associations, while in Saskatchewan and Alberta, the expansion in total co-operative marketing has lagged behind the expansion in cash farm income. (Appendix A, Tables VIII, XI and XIII). During the war period, there are striking contrasts between different products when the rate of growth of co-operative marketing is compared with the rate of increase in the corresponding cash farm income. (Appendix A, Table XIV).

By and large it appears that co-operative associations have been able to increase their relative share of the marketing business in more commodities and in more areas than have their competitors. In some fields and in some areas, however, this increase in co-operative business has been quite striking.

PURCHASING AND FARM SUPPLY OPERATIONS

Part of the business of co-operative associations in Canada consists of acquiring and selling to their members (and sometimes to non-members) farm and other industrial supplies as well as food and general merchandise. Sometimes these sales are made at the retail, sometimes at the wholesale, level. The associations purchase the larger part of these commodities through ordinary business channels either directly or by means of their wholesale federations. A smaller part is manufactured by the wholesale federations or their subsidiaries or purchased from co-operative associations in other countries.

These operations are performed by a number of types of association. Retail co-operative stores handle food and general merchandise and some farm supplies. Some associations are engaged in the purchase and sale of farm supplies in bulk and at retail as their principal business. Others, whose principal business is marketing, sell supplies as well.

In 1943, feeds, fertilizers, and spray material, accounted for 39 per cent of the merchandise and supplies distributed by these associations; food products for 23 per cent; petroleum and auto accessories for 17 per cent; coal, wood, and building materials for 7 per cent; clothing, home furnishings, machinery and other miscellaneous items 14 per cent. (Appendix A, Figure 6).

The merchandising and supply business of co-operatives is distributed unevenly among different provinces and regions. In 1943, 22 per cent of this business was done in Saskatchewan, 21 per cent in Quebec; 18 per cent in Ontario; 13 per cent in the Maritime Provinces, and the remainder in other parts of Canada. (Appendix A, Figure 5).

Between 1933 and 1943, during the period of recovery from depression and during the war years, the dollar volume of merchandise purchased by co-operatives in Canada increased about eightfold but this increase was not distributed evenly among areas. The data by provinces are not completely reliable but the increase appears to have been greatest in Quebec and least in Ontario and British Columbia.

There are no exactly comparable data concerning the increase in similar sales for Canadian business as a whole. The evidence available suggests that co-operative merchandising as a whole has increased much more rapidly than either general retail sales or sales of country general stores; whether it has increased more rapidly than the sale of farm supplies as a whole is less clear from the evidence available. (Appendix A, Tables XXXIII, XXXIV, XXXV). In Saskatchewan, between 1930 and 1943, the value of the sales of co-operative associations increased from two per cent to six per cent of the sales value of all

similar products and services sold in Saskatchewan. (Appendix A, Table XXXVI). For Canada as a whole the sales of co-operative retail stores taken alone was 0.6 per cent of total retail sales both in 1931 and in 1941.

The membership of the supply associations usually consists of farmers, fishermen or other primary producers. The membership of the co-operative stores is more varied. Typically when they are situated in small towns and villages, their membership consists generally of persons resident in the surrounding rural areas but includes inhabitants of the towns and villages as well. In some cases the members for the most part are miners and, in rare cases, the membership is almost entirely urban.

The direct competitors of these associations include oil companies, both retail and wholesale, elevator companies and coal and lumber dealers who are usually incorporated, the agents of farm machinery companies, and retail stores of various sorts. Some of these retail stores are incorporated, some are not. In 1941, for example, 46 per cent of the retail store business in Canada was done by individual proprietors, 41 per cent by corporations, nine per cent by partnerships, and the remaining four per cent by liquor and other stores. (Appendix A, Table XXXII).

FISHERIES

We have not attempted to conduct a thorough survey of the comparative development of co-operative associations handling fish and fishermen's supplies. It is possible, nevertheless, to give an indication of recent trends in co-operative activity in this field. As a result of special inquiries into the depressed condition of the fishing industry government assistance, both Dominion and Provincial, has been granted for the purpose of assisting co-operative development among fishermen. The organization of co-operative associations in the fishing industry began in Prince Edward Island in 1924; there was no further development until 1930, when other similar groups were set up in the other Maritime Provinces. In 1933, the Prince Rupert Co-operative Fishermen's Association was established in British Columbia. In 1939, two other major organizations came into existence, the United Maritime Fishermen and the United Fishermen of Quebec. In 1945, this latter association had 29 affiliated locals representing 80 per cent of Gaspé fishermen. Finally, mention should be made of a co-operative fresh water fishery set up recently in Alberta.

In 1941, the 77 associations in operation did a total business of \$2,646,000. Their estimated membership was 4500. In 1942, there were 65 associations consisting of 4,826 members doing a business of \$2,628,000. In 1943, there was a considerable increase in business. Sixty-eight associations with 7193 members reported a total business of \$5,055,000. It may be noted that while the business of the 66 fishery associations reporting in 1942 was \$2,628,000., the total value of fishery products in Canada in that year was \$75,117,000.

No statistics as to the numbers of co-operative associations incorporated annually or dissolved annually are available for Canada as a whole. However, a study of this subject in the province of Saskatchewan for the twenty-five year period 1914 to 1938 indicates that of 1091 co-operative associations incorporated in the province during this period, 531 had been dissolved by the end of 1938. Of those dissolved, 23 per cent were never active commercially to any considerable extent. Of the remaining 408 active associations dissolved, 188 had a membership of less than 30 and an average existence of 4.4 years; 121 with a membership of 30 to 59 had an average existence of 5.7 years, and 99 associations with a membership of 60 or over had an average period of survival of 6.8 years.

SECTION II

ORGANIZATION AND OPERATION OF CANADIAN CO-OPERATIVE ASSOCIATIONS

The structural organization of co-operative associations is very varied. In the first place, there are many small unincorporated associations consisting usually of a small group of individuals in one locality. Many incorporated associations also have only a small local membership; others, with a large or scattered membership, divide their members into geographical districts each with its own local unincorporated unit. These small "locals" elect delegates to attend the annual or special meeting of the association. In other cases, the association divides its membership according to the product shipped. Sometimes a number of incorporated local associations establish a federation. In this case, both the federation and the local associations are incorporated bodies. The locals own the federation and elect delegates to the meeting which appoints the Board of Directors of the federation. In rare instances, however, the federation itself is not an incorporated body, although its members are incorporated associations. In some cases too, the federation includes in its membership not only local incorporated associations but also individuals. Such federations may act as central marketing, processing, or manufacturing organizations, or as wholesale purchasing and manufacturing bodies for their members. In addition, some federations perform other services for the member associations advising them with respect to accounts and financial practices, or actually keeping their accounts. Some federations even make payments to the individual members of the "locals" on behalf of the local organization. In some cases, an association, whether a federation or comprised of individual members, owns and controls one or more incorporated subsidiaries which, at times, carry on the main business of the parent body. Federations have likewise been known to engage in activities more or less supplementary to the main business of the association. While we have found no subsidiary whose sole activity is the financing of the parent organization, it is nevertheless true that some of these subsidiaries do obtain bank loans which assist in carrying on the combined operations of the parent and of the subsidiary and some federations sell on credit to their member associations. Both the federated type and the individual-membership type may, in turn, form provincial or dominion-wide federations. Associations, or federations of associations, may also become members of international co-operative federations or of co-operative federations with head office in some other country.

Many of these associations and federations are members of some provincial co-operative union or of the Co-operative Union of Canada. The Provincial and Dominion co-operative unions, whether incorporated or not, engage primarily in research and propaganda activities. They are not commercial or trading organizations and, typically, have no taxable income.

VARIETY AND UNIFORMITY

The development of the co-operative movement has been characterized by a great deal of experimentation. As a result, co-operative associations do not conform to any uniform standard either in their methods of operation or in their forms of organization. Their diversity in these respects has been increased by a number of other important factors. Different fields of business and different geographic areas have presented different problems. Methods of financing vary from area to area and from industry to industry. Contracts with members and membership qualifications are by no means uniform. Some of the associations are incorporated under the various co-operative statutes,

and some under special Acts, either of the provinces or of the Dominion. Others have been granted their charters under the Dominion Companies Act or one of the corresponding provincial Acts. A few have not sought incorporation.

From 1906 to 1911, attempts were made to bring about the enactment of Dominion co-operative legislation but these efforts were defeated. Two Acts were passed by Parliament in 1939 to assist in the co-operative marketing of wheat and other agricultural products but, up to this time, there is no special Dominion statute under which co-operative associations may be incorporated. Many witnesses contended that the lack of uniformity in co-operative organization and practice was attributable in part to the absence of Dominion legislation on this subject. While we feel that suggestions of this nature do not call for recommendation on our part, we are yet constrained to report that there is a widespread desire that a co-operative Act be placed on the statute books of the Dominion.

Every province in Canada has on its statute books legislation providing for the formation of co-operative associations; Alberta and Saskatchewan each have two general Acts; Quebec has three. Although some general principles are common to all these provincial statutes, their provisions vary greatly in detail, and have been subjected to amendments from time to time. In addition to the general co-operative statutes, special private Acts have been enacted relating to the organization of such of the larger associations as found that existing legislation was not adequate. Since these statutes cannot be adequately summarized, they should be consulted when accurate and detailed information is required.

Not only do co-operative forms of organization and operation vary but there is no generally accepted terminology to describe the details of their organization and their practices. Some co-operative terms have been suggested by the general philosophy of the movement; others have been borrowed appropriately, or inappropriately, from ordinary company and business usage. Accordingly, things called by the same name in two different associations may in fact and in law be different. Conversely, things called by different names may be the same. Even the provincial statutes frequently use different terms for the same thing and impose their dissimilar terminologies on the associations within their respective jurisdictions. Moreover, co-operative practice and terminology are both changing continually. Much of the confusion of thought apparent in the discussion of the subject may be traced to this unfortunate looseness of terminology.

Such uniformity as exists in the midst of this great variety of detail arises from the fact that co-operators have attempted to apply to a variety of problems a few general principles. While these principles are neither precise nor rigorous, they are sufficiently definite to have left their mark on co-operative practice and statutes. Each member or each delegate is given only one vote no matter how many shares he may own. In order to insure customer control, the association typically attempts to assure that investors by way of shares or reserves are also customers. A variety of methods have been adopted in an attempt to make the member's interest as investor correspond at least roughly with his interest as customer. The associations accordingly have the power to purchase their own shares and to control the transfer of these shares. The rate of "dividend" or "interest" is limited by statute. Products are bought and sold, or accepted on consignment, at prices subject to a final adjustment at the end of the accounting period. Capital is ordinarily raised by small instalments either in cash or by deductions from the selling price of products or by the application of price adjustments to the capital account of the individual member. These similarities make it possible to describe in a general way, subject to

qualifications as to detail, how Canadian co-operative associations are organized. Sometimes the typical provisions occur in the statutes, sometimes in the charter, and sometimes in the bylaws of the association. Many of the co-operative statutes prescribe a set of standard bylaws but these bylaws may be changed subject to the approval of the official charged with administering the co-operative Act. Supplementary bylaws are adopted by the various associations.

ORGANIZATION OF CO-OPERATIVE ASSOCIATIONS

Incorporation is granted either by Letters Patent or registration. Generally, Articles of Incorporation must be filed with the Registrar of joint stock companies, the Inspector of Co-operatives, the Provincial Secretary, or some other Provincial Government official. The use of the word "co-operative" as part of the registered name of an association or company is restricted in six of the provinces to associations which qualify under their Acts. In three provinces, it is not restricted.

In their enabling documents of incorporation, the co-operative associations are usually granted wide powers of marketing, processing, and manufacturing the products in which they deal. In addition, many are empowered to carry on other activities more or less closely associated with their main business. In many cases, these powers are very wide, though in Quebec they appear to be more narrowly restricted to the marketing of products and the purchase of supplies. With very few exceptions, however, the objectives of the association are quite similar to those of any other kind of enterprise. Some co-operatives, especially wholesale federations, are permitted to carry on operations as manufacturers, miners, lumbermen, refiners, stonemasons, transporters, importers and exporters in goods, wares and products of any kind and description. With few restrictions they are authorized to borrow money, to mortgage their property, to invest funds, to acquire shares in other companies and, in general, to exercise any ancillary powers necessary to attain their objectives. They are also empowered to create central agencies, federations and subsidiary companies. Usually it is provided either in the statutes, charters, or bylaws, as the case may be, that the business is to be carried on by the association at cost and without profit to itself, or for the sole benefit of the members.

CAPITAL STRUCTURE

The enabling statutes provide for the formation of co-operative associations with share capital or financed by "loan units" or membership fees. All provinces provide for the formation of associations with share capital. Quebec authorizes the issue of both preferred and common shares. In most provinces, a limit is set to the number of shares that may be held by one individual, either by statute as in Quebec under the Co-operative Agricultural Associations Act, or by the bylaws or letters patent of the individual association. In some provinces, this limit is imposed by the provision that not more than 10% of the shares issued may be held by one member. An applicant for membership in a share capital association is required to apply for a minimum number of shares, sometimes one and sometimes more than one, in accordance with the bylaws of the association. In most cases the transfer of shares is restricted by statute or bylaws and is subject to the approval of the directors of the association. In most provinces, the amount of stock authorized is not limited by the charter of the association. The associations are permitted to repurchase their own shares, usually at par if the capital of the association has not been impaired, otherwise at some appropriate fraction of the par value. In all provinces, the rate of "interest" or dividend on capital stock is limited. Although payments in

proportion to share capital are usually referred to as "interest", such "interest" is usually payable, up to the limit imposed by the statute or bylaws, only at such rates as the association may decide. The statutes of some provinces permit payment of rates up to 8%, but the usual rate does not exceed 6%.

The limitation of the shareholdings of the individual member, the control of transfer of shares, the authority to issue an unlimited amount of share capital and to repurchase the shares of the association enable the co-operative associations to correlate, to some degree at least, the amount of investment by the individual member with his importance as a customer. If a member dies or leaves a community or withdraws from the occupation from which the association obtains its members, provision is usually made to purchase his shares. Shares are issued to new members who are actual or potential customers of the association. If this process were discontinued, then, in the course of time, a situation would arise in which many members of the association would cease to be customers. Older farmers' companies that were unable to secure the right of unlimited issue and repurchase of shares, under the legislation available when they were organized, now frequently find themselves in this situation.

In Ontario, Manitoba, Saskatchewan and Alberta, marketing and purchasing associations may be formed without share capital. Such associations usually require the prospective member to pay a small membership fee. In such cases, the statutes or the charter or bylaws of the association usually provide that the members shall have equal rights in the association. While it is convenient to distinguish between a membership fee and subscription for one share of capital stock with very small par value, the difference between these two methods of financing, for many purposes, is not considerable. In Ontario the capital of co-operative companies without share capital may be either or both in the form of loan units or promissory notes of the members payable on demand. In those provinces which permit it, the current trend seems to be toward the formation of associations without share capital.

MEMBERSHIP QUALIFICATIONS

From what we have said so far, it will be apparent that new members are admitted to membership in co-operative associations by a number of different methods. In the share capital type of association, the member is usually required to subscribe for one or more shares and may be required to make a cash payment. The remainder of the par value of his qualifying shares may be obtained from "patronage dividends" allotted to him by the association or from deductions of the proceeds of the sale of his products. When an association has no share capital, it usually exacts a small membership fee. This fee may be paid in cash or may be credited to the customer from "patronage dividends" declared by the association or deducted from the proceeds of the sale of his produce. This type of association sometimes provides for "associate members" or "patrons" as well as full members. "Patronage dividends" are typically allotted to the associate members or patrons but these are not entitled to vote at meetings of the association. When "patronage dividends" or deductions to a specified minimum amount have been credited to the patron or associate member, he may become a full member sometimes by signing an application form, sometimes simply by accepting notification that he is entitled to become a member. Some associations distinguish between shippers who have signed a contract to market the whole of their product through the association and others who have not so signed.

CONTROL

Generally, (as already pointed out), each member of the association has only one vote at the meetings of the association. In seven of the nine provinces voting by proxy is not permitted. In some cases, the association divides its membership into smaller unincorporated local groups arranged upon a regional basis. Each of the groups then elects one or more delegates to attend and vote at the meetings of the association. Similarly, delegates are elected by member associations to attend the meetings of federations. The number of delegates from each local association may depend on the relative size of its membership or the relative volume of business transacted by the local with the federation.

The directors of the association, elected at the general meeting, are given wide powers of direction and supervision over management. None the less, their decision as to the distribution of the annual surplus of the association is subject to the terms of the statutes and bylaws and where these leave some discretion, the actions of the directors are subject to the approval of the general meeting. The general meeting also enacts the bylaws, elects officers and appoints auditors.

Marketing associations carry on their business operations in a variety of different ways and, for our purposes, we may distinguish between those associations which purport to act as agents for their members—the so-called “agency type” of association—and other associations which purchase the products from the members and do not purport to act strictly as their agent. Usually, though not always, the “agency type” associations receive the products of their members on consignment.

MARKETING ASSOCIATIONS THAT RECEIVE PRODUCTS ON CONSIGNMENT

Some associations receive products as agents or on consignment from their members and sometimes from non-members as well. The terms on which they receive the product may be expressly stated in a written contract with the individual member, or set forth more or less explicitly in the bylaws of the association. In some cases these contracts require the shipper to deliver the whole or some substantial part of his product to the association; in other cases, the shipper is not so bound. Usually, the association agrees to act as agent, or agent and factor of the member, to handle, store and sometimes process the commodity; to dispose of it to the best advantage according to the judgment of the officers of the association and to account to the member for the proceeds on the basis of quantity and quality. Many members, in other words, deliver their products of varying quantity and quality to a common agent, each under a like but separate contract express or implied. Often one of the terms of each contract is that other members will deliver their products under a like contract. The association is usually empowered to pool the products of the shippers thereby reducing handling costs. In some cases, non-members receive the same financial returns as members. In other cases, they receive smaller returns. The products of members and non-members being pooled are often processed or manufactured. The raw, processed, or manufactured product is then sold. This marketing and processing requires the use of equipment, labour and management, and the marketing and processing tends to add value to the finished product.

Different associations follow varying methods in paying their shippers. Some make no cash payment at all when the shipments are received. Others make a payment which is considerably less than the market price, and still others make a payment which is as nearly as practicable the full price that the

product is expected to bring, less cost of handling and processing. In some cases, the initial payment, if any, is followed by a final payment, or one or more interim payments as well as a final payment.

In some cases the association is empowered to make deductions up to a stipulated percentage of gross sales, or up to a specified number of cents per unit of product handled, for the purchase of land, buildings and equipment, and is required to issue to the member, in return, evidence of equity in, or claims against the association equal in face value to the amount so deducted. Sometimes, also, it is permitted to make similar deductions for working capital. It is also given the right to deduct specified amounts to cover operating costs, expenses and losses reduced by revenue from sundry sources. It is required to account to the members for the excess of the amounts so deducted over the costs actually incurred. This it may do by apportioning this excess among the members and either paying the amounts allotted in cash or deferring payment and crediting the members with the amounts in question, or paying some part of the allotments and deferring the remainder. In some cases, part of the excess deductions, subject to approval of the general meeting of the association, is retained by the association without being apportioned to the members. In still other cases, it is simply carried forward to the next accounting period and forms part of the proceeds to be distributed to members in that period.

The payments and allotments made by the association to its shippers accordingly may be summarized as follows:—

- (a) Initial payment, if any, made when the product is received by the association.
- (b) Interim payments, if any.
- (c) Amounts paid to members after the product has been sold and the operating expenses of the period determined.
- (d) Similar amounts apportioned to members but withheld. A part of difference between deductions for operating costs and losses may be withheld and not apportioned to the members.
- (e) Deductions for permanent investment in return for which the member receives share certificates or certificates of indebtedness where shares are not used.

OTHER MARKETING ASSOCIATIONS

Instead of accepting products on consignment, other marketing associations purchase products from members and often non-members and resell them sometimes after, sometimes without, substantial processing. Often these non-agency associations do not enter into written contracts with each member but the bylaws of the associations, the statutes under which they come into existence and perhaps their customary practices serve to prescribe, at least within rough limits, their methods of doing business and their obligations to members. When the association buys the product of a member, it may make an initial payment to him in cash corresponding closely to the current price of the product. At the end of its fiscal period, the association computes the amount realized from the sale of the product. The total so arrived at is the gross income of the association. From this gross income the association then deducts amounts already paid to members and its operating expenses, reduced by sundry income. What remains constitutes the annual surplus. The directors of the association, subject to the provisions of the relevant statutes and bylaws, make certain deductions from this surplus and apportion the remainder.

In some provinces the marketing associations are organized under the same Act and are required to deal with the surplus in the same way as do the purchasing associations. In other provinces, marketing associations are organized under separate legislation. In the latter provinces, the associations retain, unallocated, a portion of the surplus stipulated by contract or bylaw, or decided upon by the directors subject to the approval of the general meeting of the association.

From the remaining surplus, those associations, which are empowered to pay interest on share capital or other amount standing at the credit of the members, deduct the amount permitted or required for this purpose by the contracts or bylaws of the association.

The bylaws may permit the association to deduct also an "educational" reserve. The remainder is apportioned among the members in proportion to patronage. The amounts thus apportioned may be paid to the patrons in cash but the bylaws may provide for the deferment of a portion of these patronage allotments. In the case of share capital, marketing associations' patronage payments may be applied against the balance owing by the member on share subscriptions.

OPERATIONS — PURCHASE AND SUPPLY ASSOCIATIONS

The purchase and supply associations purchase supplies for resale to their customers and collect from them therefor certain sums. From the proceeds of sale they deduct their ordinary expenses, reduced by sundry income. The difference constitutes the surplus for the year's operations.

Co-operative legislation which provides for the organization of purchasing associations, or of both purchasing and marketing associations, usually requires or permits the associations to make certain deductions from the annual surplus before arriving at the amount available for allocation to members: (a) statutory reserves; (b) educational reserves; (c) interest on share capital or on allocated reserves.

(a) *Statutory Reserves*

The statutes of most of the provinces require the associations to set aside as a statutory reserve at least 5% or 10% of the surplus. In these provinces the associations may, and usually do, provide for reserves larger than the statute requires. In Ontario, however, the statute imposes an upper limit of 20% of the annual surplus. The members have no right to participate in or exact payment of these reserves unless the association is wound up.

(b) *Educational Reserves*

In many of the provinces, the associations are permitted to set aside each year a certain percentage, usually not in excess of 5%, to be used for membership activities or to attract new members.

(c) *Interest on Share Capital or Allocated Reserves*

In some cases the contracts or bylaws stipulate that interest shall be paid at a fixed rate whether earned or not. More frequently, however, the bylaws provide that interest shall be paid at the stipulated rate only if earned. In still other cases they provide that it may be paid, if earned, up to the maximum rate permitted by the bylaws or the statute.

When these deductions have been made from the annual surplus of the association the statutes usually provide that the remainder shall be apportioned to members or customers in proportion to the volume of business they have done with the association. Some associations allot "patronage dividends" to

members and non-members alike; others pay or allot smaller "patronage dividends" to non-members; still others do not allot "patronage dividends" to non-members at all. Powers granted to the associations in this respect differ as between different provinces. Associations are usually empowered to pass a bylaw deferring payment of a portion of the amounts so allotted to be used for the purposes of the association.

In most cases the bylaws of the associations stipulate that patronage dividends payable to the shareholder shall be applied to the unpaid balance of the shares for which any member has subscribed as a condition of membership. An individual member may, of course, subscribe for additional shares and direct the association to apply patronage dividends payable to him to the unpaid balance of his share subscription. Some associations which undertake marketing and purchasing activities are empowered to make systematic deductions to pay up his share subscriptions in a specified number of years. In such cases patronage dividends need not be applied to unpaid share subscriptions.

CO-OPERATIVE FINANCING

In summary, different types of associations secure funds for investment in a great variety of different ways.

The contracts or bylaws of a marketing association which receives products on consignment may provide for deductions for capital purposes and operating expenses. In return for the deductions for capital purposes the association may issue share certificates, where shares are used, or certificates of indebtedness where shares are not used. On the basis of the authority to make these deductions, the directors may borrow from the banks or the public. Part of the difference between the deductions for operating expenses and the expenses actually incurred may also be retained and used for the purposes of the association.

In the case of a marketing association which purchases products from the producers, the bylaws may provide that each member must subscribe for a minimum amount of share capital, payable in cash or by instalments. Where no share capital is issued, membership fees may be paid in cash or by instalments. Payment for the products is made, usually at current market prices, and when the produce is resold, part of the surplus, after paying operating expenses, may be retained being apportioned among the members; part may be apportioned and retained; part may be returned to the members or applied against share or membership subscriptions.

In a share-capital purchasing association, each member is required to subscribe for a minimum number of shares payable in cash, or partly in cash and partly on call, or if not sooner paid, out of "patronage dividends" declared by the association. Some associations require their members to deposit "loan units" for the duration of their membership. These may also be paid from patronage returns if not sooner paid in cash. Associations which finance without share capital, or which require only a small qualifying subscription for shares, may finance largely by means of deferring payment of patronage allotments. Any of these types of association may be financed partly by withholding a part of the surplus without allocating it to members. Any type may borrow from its members or from the public on individual loan contracts. These loans may be advanced in cash, or the association may be empowered to withhold patronage payments as a loan from the member.

The relative importance of share capital contributions, capital deductions, deferred dividends and unallocated surplus varies greatly from one association to another. In a sample of 40 purchasing associations in Saskatchewan during the eight years 1936 to 1943, thirty per cent of the increase in members' equity

was accounted for by share capital subscriptions and allocated reserves representing withheld patronage dividends. The remainder was represented by earnings withheld and not allocated. In a sample of 50 associations in the province of Quebec during the same period, 46% of the increase in members' equity was represented by share capital and allocated reserves, and 54% by unallocated surplus and reserves (Appendix C).

In all cases, associations are faced with the problem of keeping the investments of their individual members at least roughly proportional to their patronage. Accordingly, provision must be made from the resources of the association to purchase the shares of retiring members or to pay to members the "patronage dividends" or deductions held back in former years. As far as their financial position permits, and in order to maintain an active membership, associations attempt to purchase the shares and other claims of members who die, or wish to withdraw from the association. Usually, in Canada, however, so long as an individual remains a member of the association, he is not encouraged to withdraw his capital from the association. Some associations, however, have adopted a systematic method of retiring shares, deductions or withheld "patronage dividends". In these cases, funds secured from current deductions, or retained "patronage dividends", or current payments on shares, or other sources, are used to retire deductions made or dividends withheld in former years. The earliest contributions are usually retired first. This system of retention and payment is repeated as the years go by and the deductions or retained "patronage dividends" are termed a "revolving fund". The deductions and retained "patronage dividends" may be held for varying periods. During this period they form part of the invested capital of the association. In addition to financing its day to day operations, these funds may be invested in plant and facilities or in Government bonds or other securities, income from which goes to increase the revenues of the association. Sometimes the amounts credited to members in the revolving fund bear interest and sometimes not. Sometimes the length of the period of retention is stipulated in the bylaws, sometimes it is left to the discretion of the directors of the association. The members' rights to these revolving funds are sometimes evidenced simply by entries on the books of the association, sometimes by entries in pass books, and sometimes by shares or certificates of various descriptions.

EXPULSION

The statutes, bylaws or contracts usually provide that a member may be expelled from an association for conduct detrimental to the welfare of the association. If such expulsion is decided upon by the Board of Directors, commonly, it must be confirmed by the general meeting of the association. On expulsion, the directors may pay the member the par value of his shares and the amount allocated to him on the books of the association, either in cash or in instalment. No case has been called to our attention in which a member, on withdrawing from the association, was denied the payment of his equity therein.

GOVERNMENT ASSISTANCE TO CO-OPERATIVE ASSOCIATIONS

From time to time co-operative associations have received assistance from the Dominion Government and the governments of some of the provinces. All provinces have enacted co-operative legislation and many of them provide special services for administering this legislation and advising, organizing, and regulating co-operative associations. Other assistance has taken the form of loans and grants for organization and operating purposes. Financial assistance of this kind has been particularly common in the Western provinces and in Quebec but other provinces have likewise, from time to time, afforded finan-

cial assistance to co-operative associations. In addition, some provincial departments actually undertake marketing activities exhibiting some co-operative features. This work is discontinued as soon as the farmers organize to take over the marketing of the products in question. On a number of occasions, the Dominion Government has encouraged or assisted co-operative organizations. In the past, six of the nine provinces exempted co-operative associations from the payment of income tax. Another province, which levied no income tax, exempted them from its tax on corporations.

PRESENT TAX POSITION OF CO-OPERATIVE ASSOCIATIONS AND THEIR DIRECT COMPETITORS

At present co-operative associations regarded as falling within the purview of section 4 (p) of the Income War Tax Act are not liable to corporate income or Excess Profits tax. As we have seen, their competitors consist of public and closely held companies, partnerships, sole proprietorship businesses, non-exempt co-operative companies and even Government enterprises. The incorporated competitors are subject under the Income War Tax and Excess Profits Tax Acts to a tax of 40% (30% in the case of small companies) on income up to 116 $\frac{2}{3}$ % of their standard profits and a tax of 100% (less a 20% post war refund) on income in excess thereof. Unincorporated business competitors of the co-operative associations are not subject to tax as business entities under the Income War Tax Act but their owners are subject to income tax on their business and personal incomes. Under the Excess Profits Tax Act unincorporated businesses are subject to a tax of 15 per cent of their total profits or, alternatively, the whole of their excess profits, whichever tax is the larger. Some of the direct competitors of the co-operative associations are non-exempt companies which carry on trade in ways which are, in many respects, analogous to the business methods of the exempt companies. These companies would be entitled to deduct payments in proportion to patronage where the terms on which they have sold or obtained a product involve a contractual obligation to make the payment, and it is not purely voluntary. These contractual payments are deductible whether paid in cash or credited to the accounts of the producers or customers as an irrevocable obligation.

SECTION III

ARGUMENTS RELATING TO THE TAXATION OF CO-OPERATIVE ASSOCIATIONS

In the course of our hearings a great many arguments and considerations were urged upon us. It is fitting that these should be now discussed.

PUBLIC INTEREST

The representatives of co-operative associations advanced two main grounds upon which they sought to be freed from tax. They urged, in the first place, that their associations performed certain public services for people in receipt of low incomes which ordinary companies did not attempt, or at least not to the same extent, from which premise flows the plea that, in the public interest they should be specially favoured. Secondly, it was alleged that they were not profit making institutions by intention or practice; that their object was to perform services for their members at cost, giving rise to the argument that, in fact, they did not derive profits from their members. Many recognized, however, that some profits might arise and accrue to the members through the association from non-member business or deriving from investments.

The Commission is in no doubt that the co-operative associations can and do perform services which are valuable not only to their members but redound to the advantage of the community in general. In many fields their methods of organization and operation enable them to meet special economic needs more effectively than these can be met by ordinary trading companies. On the other hand, the forms of organization and operation of the latter enable them to perform other public services and other functions more efficaciously than can the co-operative associations.

In particular, the co-operative form of organization, especially in rural areas, affords an opportunity to individual members of outstanding capacity to obtain an experience in management, administration and leadership which, in the ordinary course of events, they could not obtain in any other way. The development of these men through training is not only valuable to the associations themselves but is of advantage to the country as a whole. Similarly, however, the ordinary companies and businesses provide a like opportunity for their employees of promising ability to become proficient in business by assuming and discharging the responsibilities of important administrative positions.

This point is very closely akin to another. In the modern world of large enterprises, especially when times are difficult, some individuals with low incomes are likely to feel that they are being taken advantage of and are powerless to resist such exploitation. The establishment of a co-operative association may assist in meeting the needs of such members and in bringing relief to this feeling of frustration by providing an outlet to normal creative activity. The value of such an objective for individual ambition, not only to the member himself but to the community generally, need hardly be stressed. Although the associations render important social services by providing a vehicle whereby individuals in low income groups may help themselves, it is none the less true that they themselves are dependent on Government services and facilities financed by taxes levied upon those who possess the ability to pay.

In the special field of marketing the products of the farm and fisheries, the members are perhaps better placed to judge the tastes of the market and adjust their products accordingly if they have their own representative in the market and are assured that the tastes of the consumers will be reflected back to them directly in appropriate price differentials according to grade and quality. In the same way, of course, non-cooperative companies handling manufactures or primary products are usually in a better position if they have their own representatives in their more important markets.

Again co-operative associations appear to have developed most rapidly in fields where there are wide and rather rigid price margins associated with government control or custom, or where a multiplicity of outlets make for high costs of distribution and marketing as, for example, in Western Canada where the whole organization of marketing and distribution was originally planned to serve a larger population than has actually developed. If co-operative associations can help to prevent the development of unreasonably wide margins and unnecessary duplication of facilities, they will be performing a public service which governments can accomplish only with difficulty. However, alert and efficient non-cooperative trading enterprises perform similar services not only in areas where the associations are now engaged, but in many other commercial and industrial fields.

Some representatives of the co-operative associations argued, and it was repeated on many occasions, that the methods of co-operation resting, as they say, upon the self help motif, appealed to and developed a higher set of principles than the individual and purely selfish pursuit of gain. If it be necessary for us to express an opinion in this somewhat abstract and idealistic field, it is

this: in their actions human beings are actuated by a wide variety of motives and in varying proportions. The more varied the forms of organization open to them in earning their livings, the more probable it is that each will be able to find a satisfying and useful niche within the general economic framework. Trial and error alone can determine in what fields ordinary companies and in what fields co-operative associations can most usefully make their own peculiar contributions to our economy.

It was pointed out that the members of most co-operative associations are farmers, fishermen and other primary producers. Producers of primary products and business ventures engaged in marketing their goods are subject to extreme fluctuations in income. The Income and Excess Profits Taxes in the past may have burdened them unduly when applied in years of high income without due allowance for years in which losses occurred. It is true, also, that both the co-operative associations and their private competitors in these fields are subject to the same wide fluctuations in income. Recent amendments to the legislation afford a considerable measure of relief.

On this first head of argument, therefore, considerations of public interest do not lead us to the conclusion that co-operative associations should be given a blanket exemption from income tax while their competitors are subjected to the full burden of the current heavy rates. The considerations referred to do suggest, however, that where there is doubt as to what the income of an organization really is, the relative strength of co-operative associations and their competitors should be carefully considered to make certain that the solution finally adopted will not ruin one or the other, or unduly constrict their relative growth and development.

The granting of fiscal advantages is not usually a good method of giving special encouragement or assistance in the field of economic venture. Exemptions granted to one segment of the commercial community can scarcely benefit the public as a whole. Welcome though they may be to those who receive them, the burden from which some are relieved falls with proportionately increased weight on the rest of the economy. The cost of granting the exemption is usually not known. Accordingly, it is difficult to know whether or not the results are worth the cost. The advantages of any general exemption accrue to those who need it and to those who do not. In this particular case the advantages are likely to accrue in larger proportion to those associations whose income is large and whose need is less, while those associations who have no net income are receiving no advantage from the exemption.

THE ASSOCIATIONS AND THEIR MEMBERS RECEIVE INCOME

The position of co-operative associations in relation to income tax arises in two ways: (1) from the statutory exemption which at present applies to some of them and (2) from the alleged statement of fact and law that they earn no income. The second main contention of co-operative witnesses and counsel, accordingly, is that co-operative associations are non-profit organizations. This statement connotes a number of different but related meanings. Sometimes it means that the associations do not distribute the net surplus arising from the co-operative business in proportion to investment, except for a limited rate of "interest". At other times it means that the associations try to arrange their affairs to insure that there will be no conflict of interest between the members as customers and the association as buyer or seller. Again, it may mean that the association is financed in such a way that the interest of each member as owner and investor is at least roughly proportional to his interest as a customer. Finally, it may give the idea that the associations try to "operate at cost", that is to say, they endeavour to return to their member customers the

whole of their receipts except for necessary expenses. Compendiously it means that co-operators try to do all these things. The mere statement of this non-profit purpose in their charters or bylaws is not conclusive to a finding that co-operative associations do not in fact and practice earn an income which might, in all fairness, be assessed to income tax. The circumstance that they may order their affairs in such a way as to avoid friction between buyer and seller, or so that the investments of the members are roughly proportional to their patronage, is not relevant in determining whether they earn a taxable income.

It was urged upon us that co-operative associations, even though they possess the advantages of limited liability, were nevertheless not legal entities, separate and apart from their members. We do not subscribe to this view nor does it, in our opinion, correctly state the facts or the law. Most co-operative associations are incorporated bodies. They are, in our opinion, "bodies" corporate and, therefore, "persons" within the meaning of that word as used in the Income War Tax Act. We regard the individual members and the corporate bodies with which they are associated as "persons" separate and distinct the one from the other. Each is a potential taxpayer with respect to that income which may properly be considered to be his.

In opposition to the foregoing contentions advanced by the co-operative movement, some of their competitors assert:

(1) That the associations perform precisely the same productive functions as ordinary companies, using the same sort of buildings and equipment, employing the same sort of labour, using the same technical methods, obtaining the goods they handle and process from the same sources, and selling them in the same markets as do their non-cooperative competitors;

(2) That they are organized as limited liability companies and do business under the same sort of contracts and with the same powers and obligations as ordinary traders;

(3) That they are organized and operated *for the purpose* of making a profit, and

(4) That consequently they should be assessed to taxes upon the same basis as an ordinary company.

We have already indicated that, in our view, the purpose or alleged purpose of the associations is irrelevant. We are convinced that they do not do business under precisely the same sort of contracts as ordinary traders. The first contention, however, is both true and important and leads to a fundamental conclusion. If we consider a marketing or supply association and its members as one group of individuals, then the whole of the incomings of this group from the sale of produce is the gross income of the association and its members taken together. If from this gross income are deducted the expenses incurred to outsiders and ordinary allowances for bad debts due by outsiders and depreciation of buildings and equipment, whether in the hands of the members or the association, then the whole of what remains is net income produced by the association and its members. This net income, moreover, is calculable in terms of dollars. It is identical with the income which is ordinarily subjected to income tax. All of it should be assessed as income either of the members, or of the association, or of both, unless there are very clear special reasons for exempting any part of it. This point is not really in dispute since, without exception, witnesses on behalf of co-operative associations were of the opinion that the association conferred a financial benefit on the members.

A co-operative store which sells consumers goods is perhaps in a slightly different position. In this case, the expenses of the association and its members incurred to outsiders is clear and determinate. However, the goods are not resold by the members; they are used or consumed by them. Conse-

quently, the gross money income of the association and its members taken together cannot be computed. In this case, it is necessary to decide at the outset what part of the receipts of the association from its members are really prices paid by the members. This difficulty may have been at the foundation of the compromise solution recommended by the British Commission of 1933 that rebates or patronage dividends ("divis") returned to members of a consumer store were not to be regarded as being the profits of anyone, while the amount retained by the society, less ordinary expenses was to be regarded as the taxable income of someone, notably the society.

In the early stages of the tax controversy in England, an attempt was made to apply the doctrine of mutuality to this situation. This argument, originally developed in connection with mutual insurance, was advanced in support of the contention that neither the society nor the members make any profits from their joint venture. But, in the view which we take of the Canadian tax situation, this argument is of little assistance. Co-operative associations are organized for buying or selling or both. Even in the case of a co-operative consumers' store, the amount saved by the consumer is influenced not only by what the consumer originally pays the association but also by the amount the association has to pay its suppliers and its employees, by the amounts received from outside investment, and by the amount of its business with non-members. It is our unhesitating opinion that the association and its members, as a result of the trading venture which they undertake, do make a profit. The difficulty arises in determining to which of the two, the members or the association as such, this profit inures. In the hands of one or the other, it is assessable to tax. Thus, while originally "mutuality" may have had great potency in support of an argument that in fact, no profits were made from the venture, it has lost much of its former vigour in those aspects of co-operative business which now confront us.

As we have already seen, co-operative associations do not do business by virtue of the same sort of contracts as the ordinary company, or with precisely the same obligations. In particular, the methods of organization of co-operative associations make it unnecessary for them to distinguish as clearly as does an ordinary company between amounts which in source and function are at least roughly analogous to the profits of an ordinary company and other amounts which are similarly analogous to capital contributions of the shareholders, or to the expenses of an ordinary company. For example, in a marketing association, part of the deductions from the proceeds of sale of the members' products resemble charges made by the association for handling the members' products. Other parts more closely resemble capital subscriptions of the members to finance the association. In the case of an ordinary company, it is perfectly clear what part of the shareholders' equity has come from subscriptions by shareholders and what part has been retained from the profits of the company. Obviously, if an ordinary company was authorized by the customer to keep as a loan part of the proceeds of sale of products consigned to it, this loan would not be considered part of the income of the company. Again, the association is, to some extent, obligated to make return to the members in proportion to patronage. These returns resemble in part an ordinary price rebate or discount. However, their amount is affected by the efficiency of management of the association and a variety of unpredictable circumstances beyond its control. It may be affected also by revenue from the investments of the association in bonds or other securities. It may be influenced as well by the policy the association follows with respect to engaging in business with non-members and granting patronage returns to the latter. On the other hand, if satisfactory returns of this kind are not made, it is probable that the membership and the business of the association will decrease.

Functionally, then, the so-called patronage dividends may partake of the nature of a return of profits to the members, or a return of excess charges, or a return of investments, or an expense of the association. These practices, be it noted, are not to be regarded as devices adopted by the co-operatives to avoid payment of taxes. Rather they are characteristic of the ordinary co-operative way of doing business.

The contracts between the association and its members differ at least in phrasing and detail as between different associations. The terms of the relevant statutes, memoranda, articles of association, bylaws and specific and implied contracts, differ from the corresponding documents and contracts between an ordinary company and its customers; or between an ordinary company and its shareholders. The precise effect of the various clauses of the contracts and the general implications to be drawn therefrom, taken as a whole, have not been clarified, in Canada, by judicial interpretation, and it is far from clear in principle what effect may or should be given thereto. There are very few Canadian decisions touching the question. Each case must depend and turn upon its own facts. It is thus impossible to lay down, as a general rule, definitely how much of their surplus the associations are actually obligated to return to their members, or at what date, or on what terms. Here lies the difficulty in deciding what amounts may reasonably be considered, for income tax purposes, to be income received directly by the member and taxable only in his hands, and what amounts can reasonably be considered to be the distinct income of the association and taxable in its hands, even if later distributed to the member. We were referred to two decisions of the Supreme Court of Canada. The first of these decisions was rendered in the case of *Fraser Valley Milk Producers Association vs Minister of National Revenue* 1929 S.C.R. 435. It was rendered on the 30th day of April, 1929, and unanimously affirmed the decision of Audette J. in the Exchequer Court, rendered on the 8th day of October, 1928. The other decision was that rendered in the case of *Saskatchewan Co-operative Wheat Producers Association vs The Minister of National Revenue* 1930 S.C.R. p. 402. It was delivered on the 10th day of April, 1930, and affirmed the decision of Audette J. in the Exchequer Court rendered on the 29th day of May, 1929. We are advised that these decisions turned upon the particular facts therein involved and do not for that reason furnish any guiding principle applicable to our general enquiry.

The competitors of the associations contended that the co-operative surplus is strictly analogous to the profits of an ordinary corporation; that the co-operative form of organization enables the association to secure a large volume of business and to effect economies in marketing; also that this surplus is attributable to the use of capital and the employment of labour and to the successful outcome of business risks. These are the factors, they argued, that enable ordinary companies to make profits. The conclusion followed, accordingly, that the whole of the surplus of co-operative associations should be taxed as the profits of the association. In our opinion these various factors do assist in effecting economies. In a competitive situation, however, most of the economies which ordinary companies secure tend to be passed on to their customers in the form of lower prices. The taxable income of the companies, however, depends on the prices actually charged. Similarly, if a co-operative association effects economies and passes these on to its customers, we are of the opinion that it should not be taxed as though it did not adopt this practice.

COMPETITION AND TAX EXEMPTION

The present income taxes impose a heavy burden on ordinary companies and their shareholders. It is important to consider whether the immunity of the co-operative associations from tax imposes an *additional* burden on their

corporate competitors by giving the associations an unfair competitive advantage.

In the foreground of the apprehension expressed by the competitors of the associations was the suggestion that the latter might use their reserves, now being built up without payment of taxes, to drive such competitors out of business by precipitating a price war, or to finance the improvement of facilities and premises, or to buy up ordinary businesses, or to initiate new ones. However improbable it may be that an association would make use of accumulated funds to finance unreasonable price reductions and precipitate a price war, yet some associations temporarily might make the mistake of adopting such a policy. The associations at present do retain earnings without paying income tax. (Appendix C). These retained earnings may be used to expand premises, improve services and thus secure new members. This expansion tends to diminish the business volume and the incomes of ordinary enterprises—enterprises already in existence or enterprises that might have been established if the association had not expanded. Moreover, the tax free reserves which an association may accumulate will assist it in surviving periods of falling prices and business depression.

When a new co-operative association is formed, the funds initially paid to the seller of the purchased business do not come from tax free reserves, but from actual collections in cash from the members of the new association. The remainder may come wholly or partly from income which has not been subjected to tax. When an established association purchases a business, all or part of the funds required may be obtained from capital newly subscribed in cash; part or all may come from income which has not been taxed. The evidence presented tends to suggest that some part of the prospective advantages of freedom from taxation, in some cases, may have been capitalized and paid to the former owner as part of the purchase price. The seller of the business, in this situation, sustained no injury, but other prospective purchasers may have been handicapped.

We find no basis for the view that the freedom of co-operative associations from income taxes has, in the past, induced the associations to engage in unreasonable direct price competition, or enabled them to damage their competitors by attracting funds which otherwise would have been available for investment in ordinary business. Whether the ability to pay patronage dividends gives an association a competitive price advantage is debatable. It would appear, therefore, that the chief *competitive* advantage which the co-operative associations as entities enjoy, by reason of their tax exempt position, lies in their present capacity to set aside larger reserves than they could if they were taxed on the same basis as are their competitors.

This conclusion finds support in the fact that co-operative marketing associations do not appear to have been able to obtain a larger proportion of the business of marketing farm produce. It is probably significant too that no direct competitor of a co-operative association appeared before the Commission to testify that, up to the present, he had been severely prejudiced by co-operative competition, though many did complain of the heavy weight of taxes that the companies have had to bear. Rather were the fears limited to the competitive advantages the associations might obtain in the future from their large reserves. In our opinion, it is desirable that a solution be found which will go at least some distance toward removing these fears in so far as they arise from tax exemption.

EQUITY IN TAXATION

We turn now to consider whether the advantages received by co-operative associations by incorporation are substantially the same in kind and amount as those conferred on ordinary companies. Certain provisions of the Income War Tax Act already recognize that different kinds of ordinary companies may reasonably be given somewhat varying tax treatment. Recommendations have recently been made concerning the special treatment of private and closely held companies. The advantages conferred by incorporation include, among others, the power to issue transferable shares with limited liability, perpetual succession and the use of a common seal. Incorporation, moreover, establishes a legal entity from which shareholders may exact their dues by means of legal process. The power to issue transferable shares with limited liability has proved to be a great advantage in securing large accumulations of funds from individuals who would be unwilling to risk their entire fortunes in the venture, and who wish to be able to realize their investments without undue delay.

Both co-operative associations and ordinary companies enjoy these advantages except that the shares of co-operative associations and closely held companies are often not readily transferable and both draw their funds from restricted sources of investment. An additional self-imposed restriction of the associations arises from the fact that they repurchase the shares of persons who have ceased to be customers. These considerations lead to the conclusion that associations like companies derive advantages from incorporation and may reasonably be taxed on whatever income they do receive. However, the advantages derived by the associations are probably, on the whole, less than those enjoyed by ordinary companies. We do not undertake to decide whether the advantages of incorporation are commensurate with the present high rates of corporate taxation.

It is reasonable now to deal with the relative faculties or capacity of co-operative associations and companies to pay taxes. It has repeatedly been pointed out that co-operative associations are unusually difficult to initiate and the Saskatchewan study suggests that in their early years, their financial difficulties may be greater, on the average, than those of similar ordinary companies. It is true also, since each member has one vote only, that the stability of the association depends upon the discretion of its more needy members. This cannot usually be said of an ordinary company. In its more mature stages, however, the "share-capital" type of association, with its large unallocated reserves, appears to be quite a stable organization. The financial strength of an "agency-type" association, financed largely by means of allocated reserves, is less clear. In practice, however, in Canada, the members have not in the past been able to obtain repayments of allocated reserves except with the approval of the directors of the association. We are thus led to the view that associations financed in this way, once they have reached their mature development, are also fairly stable institutions and capable of bearing the burden of taxes. We conclude that there is no justification for the complete exemption of either of these types of co-operative associations on the grounds that, as companies, they have no ability to pay taxes.

Viewed from another angle the corporate income tax may be regarded as a tax paid by the company on behalf of its shareholders. From this point of view that portion of the tax which is assessed upon the undistributed profits of the corporation is an average payment on behalf of the owners of the company on funds accruing to their benefit but on which they are not currently taxed. If that part of the tax which is imposed on dividends is to be defended, it must be on the grounds that companies have the power, which unin-

corporated businesses have not, of determining the year in which the profits of the company will be received by the shareholders and be assessed to personal income tax. When personal income tax rates are rather steeply progressive, and the earnings of a business fluctuate from year to year, the power to maintain stable dividends diminishes the total tax payable by the shareholders.

The co-operative association, like the trading company, has the power to maintain stable dividend rates. Moreover, the co-operative associations qualifying under section 4 (p) of the Income War Tax Act may set aside reserves, some of which are not at present taxed in the period when earned either as income of the member, or as income of the association. True, the member cannot realize on these tax free accumulations by selling his shares at a higher price, but he does obtain an advantage by the faculty, as it were, of re-investing earnings in the association without first paying tax on them. This is an advantage to such members of the association as are in receipt of taxable incomes. Be this as it may, the majority of the members of co-operative associations, in normal times, receive incomes which are below the exemption limit. Accordingly, the ability to re-invest without first paying personal income tax, is of lesser advantage to the members of a co-operative association than it is on the average to the shareholders of a company. Considerations of this nature are not sufficient, in our view, to justify the plea for complete exemption of co-operative associations from income tax.

EXPERIENCE IN BRITAIN AND THE UNITED STATES

The task of applying income tax to co-operative organizations has always been before the tax authorities in Canada in respect of associations which have not qualified under section 4 (p) of the Income War Tax Act. Our terms of reference and the evidence before us suggests that no final and completely satisfactory policy has evolved. With a view to further enlightenment, we deemed it advisable to investigate the application of income tax to co-operative societies in Great Britain and to non-exempt associations in the United States. These studies are included in Appendix D and may be referred to for greater detail.

In England the tax is applied to all amounts that the co-operative associations put to reserves. Under the conditions and practices prevailing in that country, this policy has not presented serious administrative difficulties. It is well to bear in mind, however, that in Britain, no associations purport to act as agents for their members, nor do they obtain capital by withholding purchase dividends or bonuses credited to their members.

In the United States non-exempt associations are allowed to deduct patronage allotments whether paid or withheld. This method seems to be administratively feasible under the conditions prevailing in that country.

SECTION IV

PROPOSALS MADE TO THE COMMISSION

Many and various have been the proposals submitted to the Commission. Some of these merit fuller consideration and comment:

(1) *That section 4 (p) be broadened beyond its present limits to enlarge the exemptive features thereof.* We have already indicated our reasons for opposing the general exemption of co-operative associations.

(2) *That co-operative associations be taxed only on their investment income and such part of their trading surplus as arises from non-member business.* This proposal rests on the "mutuality" argument. As we have already pointed out, we take the position that the whole of the income of the members and the association is taxable income either of the members, or of the association, or both. Consumer associations represent, in Canada, only a relatively unimportant exception to this general principle.

(3) *That the associations be taxed just as an ordinary company.* We accept the general principle involved, but since the associations do not conduct their affairs in just the same way as an ordinary company, this proposal must be excluded. It falls far short of solving our problems.

(4) *That in difficult cases the Minister be given power to determine the income of the association.* While in tax matters the administration must be given certain discretionary powers, we regard this proposal as tending to impose an unduly heavy burden on administrative officials.

(5) *That a special tax be imposed on co-operative associations on some basis other than income.* Our mission, however, is confined to income and excess profits taxes. A majority of the commissioners takes the view that these suggested imposts would not be such.

(6) *That interest at a reasonable rate on non-interest bearing investments of members be imputed as part of the income of the association.* We have taken the view that such imputation is to be avoided if at all possible.

(7) *That the British system of taxing co-operative associations be applied, patronage dividends being allowed as a deduction.* We are to some extent in sympathy with this suggestion but the practices of Canadian co-operative associations differ considerably from those prevalent in Britain.

(8) *That co-operative associations be allowed to deduct distributions made in proportion to patronage and that their direct competitors be allowed to deduct dividends paid to their shareholders.* We consider that the last part of this proposal would give rise to greater inequalities as between different companies than any it would correct. If it were adopted, competitors of the direct competitors of the association might, with some reason, demand that the same privilege be extended to them. We can see no definite and equitable end to this process.

(9) One of the proposals made to us was that section 4 (p) of the Income War Tax Act be repealed. If this were done, all co-operative associations would be taxed on whatever taxable income they might have and the responsibility of determining if they had taxable income and the amount thereof would rest upon those whose duty it was to administer the Act. The difficulty in determining the amount of such taxable income in cases not coming within the purview of section 4 (p), and the further difficulty of construing the section in order to ascertain whether any particular co-operative association came within its provisions or not, has given rise, as we understand it, to much of the uncertainties in administration referred to in Order-in-Council No. 8725. We venture, therefore, to discuss this proposal in greater detail, in the light of advice furnished the Commission.

We are advised that section 4 (p) was inserted in the Income War Tax Act in its present form by section 2 of chapter 24 of the Statutes of 1930 (assented to on May 30, 1930), and has remained unamended since that time. During the two years immediately preceding the enactment of this section, the two decisions above referred to had been rendered by the Supreme Court of Canada, each dealing with the question as to whether certain monies received by co-operative associations was chargeable to income tax in the hands of the associations concerned. The contention was advanced before us that the section in question was enacted as a result of one or both of these decisions.

Section 4, enacts that "the following income shall not be liable to taxation". Incomes specified in paragraphs (a) to (y) are then listed. Subsection (p) thereof is as follows:

"(p) The income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations

(a) market the products of the members or shareholders of such co-operative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

This exemption shall extend to companies and associations owned or controlled by such co-operative companies and associations and *organized for the purpose of financing their operations.*"

It is to be noted that section 4 is not properly an "exempting" section, as it is frequently called; it is what may be called a "non-liability" or exceptive section, declaring that certain incomes and the entire income of certain persons "shall not be liable to taxation". The "exemption" provisions of the Act are contained in section 5.

Who are the "persons" then, whose income is declared by section 4 (p) not liable to taxation? First, they are certain "companies and associations", but not all companies and associations. Those only can qualify for the benefits conferred by the section which have the following characteristics:

(a) they must be *co-operative* companies or associations;

(b) they must be *organized and operated on a co-operative* basis;

(c) they must be either a *farmers'* or a *dairymen's*, or a *livestockmen's*, or a *fruit growers'*, or a *poultrymen's*, or a *fishermen's* co-operative association, or *other like* co-operative associations.

(d) they must be engaged in the business and on the terms mentioned in clause (a) or (b) under an *obligation* to make certain returns to their members;

(e) they may market the produce of and purchase supplies for non-members provided the value thereof does not exceed 20% of the value of produce and supplies marketed and purchased for members.

The first difficulty encountered in construing this section is to understand to what the word "like" refers. It was suggested to us that it was used as an adverb and modified the words "organized and operated", i.e., to companies and associations organized on a like basis, that is, the co-operative basis. Contra, it was urged that it was used as an adjective and qualified "co-operative companies and associations" and limited those whose income was declared "shall not be liable to taxation", to such whose business and/or members was like that of farmers, dairymen, livestockmen, fruit growers, poultrymen, or fishermen. In the light of this doubt, the section can scarcely stand as it is.

Difficulty arises also as to the meaning to be ascribed to the words "co-operative" and "organized and operated on a co-operative basis". There is no definition of these terms in the Act. No unanimity was evident among the many persons who appeared before us as to what these terms mean.

Differences of opinion arose as to the meaning of the phrase "market the products". Competitors of co-operators contended that the phrase was restrictive and that a company or association which engaged in processing or manufacturing their members' products and selling the processed or manufactured article were not engaged when so doing in marketing their members' products, and that those whose main business or a substantial part thereof consisted in processing and marketing the processed article could not be said to be within the section. On the other hand, it was argued that the point was of no importance.

Doubt was also expressed concerning the meaning of the term "obligation". Some contended that the term must be interpreted to mean a legal contract, definite as to time and amount, and strictly enforceable. Others contended that the term should be considered to refer to the sort of obligation typically imposed on the associations by the statutes under which they operate the agreements made with their members whether written or implied by usage.

Another uncertainty in applying the section as it stands, centers around the words "members" and "non-members", particularly as they relate to the "20%" clause so-called. We found that some associations treated and recognized every patron or customer as a member, with no qualification for membership required other than that he be a patron or customer.

The last clause of the section, viz. "This exemption shall extend to companies and associations owned or controlled by such co-operative associations and organized for the purpose of financing their operations" is difficult to construe and apply for two reasons. First, what does "this exemption" mean? As already stated section 4 subsection (p) is not an "exempting" section. It is a section declaring that the incomes of certain specified persons and certain income are not to be liable to taxation. Second, what is the meaning of the words "organized for the purpose of financing their operations"? We found in a considerable number of cases, that companies and associations had caused to be organized subsidiary corporations, wholly owned and managed by them. It was difficult to understand how they were financing the operations of the co-operative associations.

As a result of the ambiguities of language and the difficulty of administering the section, and because we are of the opinion there is no general class or group of co-operative associations in Canada today whose income should be declared not to be liable to taxation, we are of the opinion that the section in its present form cannot survive the attacks made upon it.

In suggesting the repeal of section 4 (p) of the Income War Tax Act, we do so in the consciousness that enterprises which are truly co-operative in organization and operation have no need of the exceptive provisions thereof. If they make no profit they are not taxable. Those associations which do not so qualify, for reasons which we have detailed, should not be accorded a blanket exemption to which they are not otherwise entitled. It may be said that the term "co-operative" is nowhere defined in the statute. That is quite true and, indeed, it would be an almost insuperable task to devise a definition which, having regard to original principles on the one hand, and present day practices on the other, would do justice to the subject. In our view, it is sufficient to say that associations which have been constituted under provincial laws and are there recognized as co-operatives, have thus been accorded a status and designation which is quite sufficient for tax purposes.

(10) In many of their submissions, representatives of ordinary companies argued that the taxation of the whole corporate income, taken together with the taxation of dividends when received by shareholders constituted unjust double taxation, and urged that the Commission recommend a change in general tax policy to bring about some alleviation of this alleged hardship. The majority of the Commission take the position that our recommendation in this respect must be confined to the suggestion that when a general revision of the Canadian tax structure is under consideration, the contention in question be thoroughly investigated.

(11) One proposal made to us was that any recommendations for taxing co-operative associations should apply retroactively. Were it not that this point was pressed upon us with some insistence, we would pass it in silence. We do not regard it as any part of our function to make any recommendations which, if enacted into law, would affect the rights or obligations of taxpayers under the existing law. It is the duty of those charged with the responsibility of administering the Act to apply its provisions as they understand them. If doubt or uncertainty arises, the Courts are always available both to the taxpayer and to the Crown to establish their respective rights and obligations. Having regard, however, to the ambiguities contained in section 4 (p) of the Income War Tax Act and the resulting, (though understandable) hesitant administrative practice in applying it, we are of the opinion that co-operative associations have so conducted their affairs that great hardship would result should our recommendations be made to apply retroactively. We also feel that many of them would be prejudicially affected if the existing law should be interpreted so as to make them liable for payment of taxes for the period subsequent to the enactment of section 4 (p). Believing as they did, and not discouraged in that belief by the administrative attitude, we venture the hope that those co-operative associations which have, in good faith, conducted their affairs in the light of a possible, even plausible, construction of the section in question will be accorded relief from payment of taxes on patronage dividends actually or constructively paid to their members or customers, since the enactment of section 4 (p).

SECTION V

CONCLUSIONS AND RECOMMENDATIONS

In the light of the observations advanced in the last two sections, we have scrutinized the various items in the accounts of the co-operative associations with a view to determining which items may reasonably be considered the income of the association; which items should be taxed only as income of the members; and which should be taxed as income of the association and also of the members when distributed to them. The position of some of these amounts is clear; the position as to others has been called into question.

Interest on a loan to or other investment in, the association with a fixed date of maturity, should be deductible as an expense of the association, provided that it can be exacted annually at the rate fixed when the loan or investment was made. It should be treated as income of the member when he receives it. Loans or investments in the association which the member is entitled to withdraw on reasonable notice resemble notice deposits. Interest on such loans, investments or deposits should be treated as a deductible expense of the association if paid at a rate specified in advance, even though the association may from time to time change such rate. These payments should be treated as part of the income of the member when he receives them.

However, "interest" or dividends which are declared by the association after the close of its fiscal period at varying rates, or only if earned, should not be treated as a deductible expense of the association. Such payments resemble closely a distribution of the profits of the association. Even though the rate be fixed in advance, we consider that such payments should not be treated as a deductible expense of the association if the principal amount has no definite maturity date and is not withdrawable by the member on reasonable notice. Such amounts should be taxed also as income of the member when he receives them.

Payments made in cash by the members in the purchase of shares, loan units, membership fees, or other similar equities are manifestly not part of the income of the association. Similarly deductions from the gross proceeds of the sale of a member's products which the association is authorized to retain as a loan or apply to the payments of share capital or other equity in the association, for which the member has subscribed, or is obligated to subscribe, are not part of the income of the association. However, the latter should be included as part of the taxable income of the member when they are deducted and applied.

Where the contract or the bylaws provide that in addition to deducting these capital contributions, if any, deductions shall be made from the gross proceeds of sale of the members' products to cover operating expenses or handling costs, the actual expenses incurred by the association in this connection are, of course, deductible for income tax purposes; but any difference between the deduction thus made and the expenses actually incurred should be treated in the same way and subject to the same deductions as the ordinary surplus of an association.

There remain for consideration the great variety of payments and allotments made from the gross revenue of the association and its members in proportion to patronage. We take the general position that such of these amounts as are made readily available to the members or customers should be considered income of the members or customers and not of the association.

However, the meaning of "readily available" requires clarification. It is intended to include patronage payments in cash before or shortly after the end of the fiscal period; applications of such patronage allotments to payments for share capital or investments for which the member has subscribed, or which he is under an obligation to make. In addition, it is intended to include allotments credited to the member in such a way that he can withdraw them on giving reasonable notice of his intention so to do. Such payments or credits in proportion to patronage, when made by marketing or farm supply associations, clearly add to the member's or customer's income and should be taxable in his hands, when paid or credited to him. However, patronage payments or credits for consumers goods should not be reported by the member or customer as a part of his income for tax purposes, unless they enter into his trading account.

On the other hand, the remainder of the surplus of the association, or the remainder of the excess of deductions made to cover operating costs over the costs actually incurred, should be subject to tax as income of the association. This remainder, retained by the association, may remain on its books as undistributed surplus or be carried to unallocated reserves (not including valuation reserves), or it may be credited to the accounts of the members, but in such a way that they cannot, as individuals, withdraw the amounts in question on giving reasonable notice, even when shown on the balance sheet as "accounts payable" or "allocated reserves" or "deferred dividends".

These patronage allotments which the members cannot withdraw on giving reasonable notice, then, should not be allowed as a deductible expense of the association when earned. However, if they are later paid or rendered

available to the members, they should be deducted from the income of the association in the year when they are paid or made available and should be treated as taxable income of the member when made available to him.

It will be observed that we make a distinction between patronage credits and other sums which are not made available to the member and those which he can withdraw on giving reasonable notice. With respect to the latter amounts, the directors, of course, may be given reasonable powers to protect the association in case of a general run on withdrawable funds. The exercise of such powers will not prevent withdrawal, except to the extent necessary to protect the members' equities. Attention is called to the regulations governing British Co-operative Societies as set forth in Appendix D. In that country, the bylaws of the societies provide for reasonable notice of large withdrawals. Except with the consent of the directors not more than 10% of the shares outstanding may be purchased or withdrawn in any one year. Moreover, the directors are permitted, temporarily, to suspend redemption of shares in periods of crisis. In practice, however, both share and loan capital are readily withdrawable.

We are also of the opinion that where ordinary companies, partnerships or individual business enterprises hold forth, to their customers, that they will distribute among them on a patronage basis a portion of the surplus earnings, they should be allowed to deduct such payments before arriving at taxable income.

To avoid discrimination, the patronage payment made by a co-operative association or ordinary business should be made at the same rate to all customers, whether members or not, for the same class or type of goods or services. This would not prevent variation in the rates for different classes or types of goods or services, provided all customers are treated equally for the same class or type.

It has been pointed out to us on numerous occasions that co-operative associations are difficult to organize and that their rate of mortality is high, especially in their earlier years. They are not in a position to attract capital for investment purposes, except in small amounts. Moreover, they are apt to find it difficult to finance the employment of the necessary managerial personnel. In addition, there is a pronounced tendency to organize co-operatives in times of economic stress. We are, therefore, of the opinion that in the public interest, co-operative associations, upon consent of the Minister, should be exempt entirely from income tax during the first few years of their operation.

The foregoing recommendations apply to all types of co-operative associations and businesses, whether their members or customers are individuals or associations, and without respect to the kind of business in which they are engaged. However, a few types require special treatment.

Some local community halls are incorporated as co-operative associations. Typically they are forbidden to make any payments to their members in cash and any proceeds of their operation on winding up must be spent for community or charitable purposes. These associations, it appears to us, fall clearly within section 4 (h) of the Income War Tax Act.

Co-operative telephone associations and co-operative associations engaged in the local distribution of electrical power or in operating local telephone systems usually have no direct competitors and, in many parts of the Dominion, obviously are alternative to municipal or provincial institutions. If these services were provided by governments, no taxes would be paid. We recommend that they should remain exempt.

Some associations have been formed to provide economical housing facilities for their members. These projects, we believe, are sufficiently similar in pur-

pose and operation to the organizations whose income is excepted by section 4 paragraph (y) of the Income War Tax Act that they should be included in the scope of this paragraph.

The income of co-operative associations formed exclusively to finance or provide medical and hospital services should also be excepted.

We are of the opinion that the amounts which an association or other business are permitted to deduct in computing their taxable income (except patronage dividends on consumer goods) should be included in the income of the recipient for the period during which they are paid or credited to him. To facilitate administration, we recommend that the Minister be given the power to require such annual returns as may be considered desirable.

Though our recommendations have been concerned primarily with the position of co-operative associations and their competitors under the Income War Tax Act, we are aware that the associations, when made subject to tax under that Act, will automatically be assessable to tax under the Excess Profits Tax as well.

SECTION VI

SUMMARY OF RECOMMENDATIONS

(In this section the word "customer" shall be deemed to include shippers and suppliers as well as purchasers where the context requires.)

(1) That section 4, paragraph (p), of the Income War Tax Act be repealed.

(2) That the Income War Tax Act and The Excess Profits Tax Act be amended to provide for the taxation of co-operative associations and organizations on the same basis as other persons in accordance with the recommendations which follow.

(3) That co-operative associations and organizations, joint stock companies, partnerships, and other bodies and persons shall be allowed to deduct, in computing taxable income, such amounts as patronage bonuses, patronage dividends, refunds of excess handling charges, discounts, rebates and other similar amounts which are paid or credited to their customers, in proportion to the quantity, quality or value of goods acquired, marketed, or sold or services rendered; provided that:

- (a) such amounts are paid in cash or its equivalent within six months after the annual meeting of the relevant fiscal period of the association, organization or company and within six months after the end of the relevant fiscal period of other businesses; or alternatively, that they are credited within the same period to each customer and exigible by him on giving such notice as may be deemed reasonable. (Appendix D).
- (b) the statute or statutes under which any such co-operative association or organization is incorporated or registered, or its bylaws, or a contract with its customers, hold forth the prospect that payments will be made in proportion to patronage.
- (c) the company or other person holds forth the prospect to customers that payments will be made in proportion to patronage.
- (d) payments in proportion to patronage shall be at the same rate to all customers with respect to the same type or class of commodities, goods or services, with allowance for differentiation in class, grade or quality where appropriate.

(4) That deductions from the gross proceeds of a customer's products be excluded from the income of the association, organization or other business, if applied against an obligation incurred by such customer to purchase shares, or to make other investment in the association; or if credited to the customer, and exigible by him on giving such notice as may be deemed reasonable. (Appendix D).

(5) That amounts credited in proportion to patronage and deductions from the gross proceeds of sale of the customer's products, which were not deductible for tax purposes when credited or deducted shall, nevertheless, be allowed as a deduction in the period during which they are paid to the customers.

(6) (a) That interest, on any form of investment in, or loan to, the association or other taxpayer having a fixed date of maturity, be allowed as a deduction, provided such interest is exigible annually by the claimant or creditor at the rate fixed at the time such investment or loan was made.

(b) That interest, on any form of investment or loan which is withdrawable on giving such notice as may be deemed reasonable (Appendix D), be allowed as a deduction if exigible by the claimant or creditor at a rate fixed in advance.

(7) That a newly formed association which obtains incorporation or registration under provincial co-operative legislation, or is incorporated as a co-operative under Dominion authority, for the purpose of producing and/or marketing natural products of its members or customers and/or of purchasing supplies, equipment, household necessities or services, for its members or customers and which is not owned or controlled, directly or indirectly, by an existing association, or a group of existing associations, shall, with the consent of the Minister, be exempt from income tax for its first three fiscal periods following the commencement of operations. An association claiming such relief should, nevertheless, be required to file annual returns in accordance with Part V of the Income War Tax Act in such form as may be determined by the Minister.

(8) That section 4, paragraph (y) of the Income War Tax Act be amended, if necessary, to include associations incorporated or registered under provincial co-operative legislation for providing co-operative housing service.

(9) That associations incorporated or registered under provincial co-operative legislation, or incorporated as a co-operative under Dominion authority, for the purpose of providing telephone services, distribution of electric power, or medical and hospital services, be exempt from income and excess profits taxes.

(10) That the Minister be given power to require all persons to make such annual returns of "patronage dividends" declared, or "deductions" made, as may be deemed desirable.

PART
II

PART II

Credit Unions

Information furnished to the Commission makes it clear that co-operative societies organized for the purpose of accepting the savings of their members in the form of shares and deposits and for providing a source of credit for their members form an important and a rapidly expanding part of Canadian co-operative development. In Quebec such societies are called 'Caisses Populaires', and in other provinces they are known as 'Credit Unions'. There are also regional and provincial federations of these societies organized either for the purpose of serving as a medium for deposit of surplus funds by member units and as a source of credit for them or to provide inspection or educational services.

An account of the development of credit unions and the more detailed information concerning them is found in Appendix E.

The operating practices of credit unions and the statutes relating to them are fairly uniform. This uniformity is in contrast to the considerable variety in practices and legislation respecting purchasing and marketing co-operative associations. It is attributable, in the first place, to the fact that credit unions are engaged in furnishing one type of service only, namely, the receipt of money and the providing of credit, while other co-operative bodies are organized to sell or to buy a large variety of goods and services. In the second place, the enactment of credit union legislation did not become general, and credit unions did not develop extensively in provinces outside of Quebec, until after thirty years of experience in that province. This experience had demonstrated the need for careful supervision and inspection of credit unions and this was subsequently provided for in credit union legislation in every province.

TYPES OF CREDIT UNION

The membership of a credit union is limited by its bylaws to persons having some well defined bond of occupation or association or residence. Co-operative credit societies accordingly may be classified as follows:

- (a) Rural Credit Unions. Of the credit unions operating in Canada in 1943, 57% were rural credit unions, organized for the most part within the boundaries of a well defined local rural district. Their members may include residents of a village and farmers in the surrounding trading area. In Quebec particularly, the rural parish is the basis of membership.
- (b) Urban Credit Unions. These made up the remaining 43 per cent of the total number of credit unions in 1943. Their membership is composed exclusively of village residents or of well defined occupational, associational or parish groups in towns or cities.
- (c) Federations of Credit Unions. The object of these federations is to accept surplus funds of member credit unions and to make loans to credit unions which are members. They function thus to some extent as central credit unions or banks for their members. The Caisses Centrales of Quebec are examples of this type of organization. There are also federations comprised not only of credit unions but also of other incorporated co-operatives. These federations perform the functions of central credit unions for their membership, as for example the Saskatchewan Co-operative Credit Society. There are, in addition, federations organized exclusively for educational, accounting, inspection and other services for credit unions not related to money transactions. La Fédération des Caisses Populaires Desjardins in Quebec and the Credit Union Federation of Saskatchewan are organizations of this type.

ORGANIZATION AND OPERATION

Credit Union legislation requires that from 7 to 20 people sign an application for incorporation, the minimum number of incorporators varying in accordance with statutes of the different provinces. Shares are valued at \$5.00 or \$10.00 each and the capital is usually unlimited in amount. An entrance fee may be charged, this being usually stated by bylaw, but is seldom more than 25 cents. The field of membership prescribing the tie of association, occupation or residence of the prospective members must be stated in the bylaws. The legislation usually states that the objects and powers of a credit union should be "The provision of thrift among its members and the creation of a source of credit for its members, at legitimate rates of interest, exclusively for provident and productive purposes". The statutory powers typically granted a credit union are set forth in Appendix E. In all Credit Union Acts, it is provided that other credit unions and sometimes other co-operatives or corporations may be members. A credit union is a limited liability company and in most provinces the legislation provides that the word "limited" shall form a part of the registered name.

Certain operating principles are also specified in all credit union legislation. Each member has only one vote. The rate of interest on loans must not exceed one per cent per month on the unpaid balance. In practice, the rate may be varied below this maximum, depending on whether the loans are made to farmers or on mortgage, etc. While a credit union may own land for its purpose the maximum value of such land is usually limited to \$5,000. A credit union has the usual powers to take security in connection with all loans, and the amount which may be loaned with or without security is usually limited by legislation. The amount which may be borrowed by the credit union is related to the amount of the capital in such proportion as is usually specified by legislation. A characteristic feature of all credit union legislation is that loans can be made to members only. The right of directors or other officers to borrow from the credit union is subject to certain statutory restrictions. The payment of interest on deposits, at such rates and at such times as may be specified in the bylaws, is provided for. No director or other official except the secretary-treasurer or manager and assistants, if any, are permitted to receive any remuneration for their services. It follows from this that much of the administrative work in connection with a credit union is done free of charge.

Shares and deposits in a credit union may be withdrawn at such notice as shall be prescribed in the bylaws, or such additional notice as may be approved by the registrar or other government official entrusted with the administration of credit union legislation. Usually a longer notice of withdrawal may be required with respect to shares. In practice, however, a member who has funds with his credit union in the form of shares or deposits, can withdraw these at any time.

The revenue of a typical credit union will include the following:

- (a) Interest on loans to members.
- (b) Entrance fees—transferred to reserve.
- (c) Fines levied, if any—transferred to reserve.
- (d) Interest on government or other securities.
- (e) Interest and/or dividends from investments or deposits with other credit unions or federations thereof, etc.

The expenses of a typical credit union include the following:

- (a) Officers' salaries, which are limited to the manager or secretary-treasurer and assistants, if any;

- (b) Ordinary operating expenses, including rent, light, heat, postage and excise, stationery and supplies, advertising, etc.
- (c) Bond premiums—fidelity.
- (d) Loan insurance.
- (e) Annual dues for membership in federation, if any.
- (f) Depreciation of fixed assets. The amount which can be invested in land is limited by most provincial legislation.
- (g) Taxes. Some provinces exempt, by legislation, the property of credit unions from assessment for municipal taxation.
- (h) Interest paid on borrowed money.
- (i) Interest paid on deposits.
- (j) Organization expenses.

The surplus earnings of a credit union are divided as follows:

- (a) An amount usually of not less than 20 per cent, is set aside as a reserve against bad loans or losses and may not be used for other purposes except on liquidation.
- (b) An amount, usually not exceeding 5 per cent, may be reserved for educational or community purposes.
- (c) Subject to the approval of the annual meeting, dividends on shares of not more than 5 or 6 per cent at the most, may be declared.
- (d) A borrower refund or patronage dividend may be returned to the borrower in proportion to the amount of the interest paid by him on his loan. Not all credit unions make a refund to borrowers, but the practice is becoming more common.

Interest is paid by credit unions on deposits at rates varying from 1 to 2½ per cent, while share dividends range from 1 to 5 per cent, 3 per cent being a common rate. With regard to interest charged on loans, the practice appears to be to charge the maximum to start with, and gradually lower the rate as the capital funds and volume of business increases. Credit unions, amongst occupational groups, may charge 1 per cent per month on the unpaid balance, while rural groups may charge from 6 to 8 per cent per annum. The rate on mortgage loans may be 4 or 5 per cent. As the earnings of credit unions increase, the policy seems to be to lower rates on loans and in many instances to make patronage refunds to borrowers, as well as to pay only a moderate dividend on shares and a reasonable rate of interest on deposits.

In each credit union there are three committees whose functions are described in Appendix E. Credit Unions in the past have had very low loss ratios. Witnesses attributed this circumstance in part, at least, to the fact that credit unions are organized on a community or group basis. It is relatively easy to select the members carefully, and each borrower is influenced by his desire to keep faith with his friends and neighbours, who comprise the membership, to repay the loan if at all possible.

PRESENT TAX POSITION OF CREDIT UNIONS

There are two sections in the Income War Tax Act which affect credit unions, namely :

- (a) Section 4 (q), which excepts from taxation "The income of any banking institution organized under co-operative provincial legislation which derives its revenue from loans made primarily to members residing within the territorial limits within the province to which the institution is restricted for carrying on its business";

(b) Section 92 (1), which provides that any person shall deduct at the source an amount equal to seven per cent from

- “ (i) any amount as interest pursuant to the provisions of a fully registered bond, debenture or other similar obligation, or
- (ii) any amount by way of dividend in respect of any share or stock.”

At the time section 4 (q) was enacted, credit union development was chiefly in Quebec, where credit unions were known as “peoples banks”, and this probably explains the use of the term “banking institution”. In practice, credit unions and federations comprised of credit unions and co-operatives have been regarded as coming within the provisions of paragraph (q).

CONSIDERATIONS AND ARGUMENTS

A great deal of evidence was submitted regarding the rather specialized services which credit unions can and do render to their members. It was contended that the credit union form of activity was of special assistance to the members for the following reasons:

- (a) It provides a method whereby people in poor circumstances are encouraged to develop a habit of thrift, since by pooling their savings they can provide a source of credit for themselves in times of need;
- (b) The bond of association, occupation or other community interest on which the membership of credit unions is based tends to minimize the element of risk which has to be considered by another type of lending institution when considering an application for a loan from an individual with little or no collateral security;
- (c) Accordingly, it provides a service for those who are either not provided with credit services from other lending institutions at all, or only at much higher rates because of the risks involved.
- (d) The tangible material and other benefits which can be derived through the credit union form of activity enable and encourage the members to solve their problems through self help rather than by relying on Government aid in times of emergency or depressed conditions.

No submissions were made to the Commission from business interests expressing opposition to credit unions or claiming that credit unions should be taxed on the ground that they are competing with other types of business enterprise. The contention was advanced, however, that no business enterprise should be entitled to exemption and that no exception should be made in the case of credit unions or federations thereof.

We are satisfied that credit unions perform a highly useful function in assisting people who are unable to take effective advantage of savings and loan facilities provided by other lending institutions. We are also satisfied that credit unions are not displacing any other type of business enterprise, except to provide an alternative source of loans in a field where individual money lenders or lending institutions do not provide similar credit facilities at comparable net rates. It is clear, therefore, that unions provide a useful supplement to other lending institutions and that the continued development of credit unions is desirable from the standpoint of the public interest.

Credit unions return to their members a very high proportion of their surplus earnings. In some cases, however, they are retaining amounts which appear to be larger than are required for reserves against bad loans and losses on the basis of past experience. If they were to be taxed by the methods we have recommended for co-operative associations, additions to these excess reserves would be made subject to tax. However, the individual amounts to be assessed would, in many cases, be very small. Moreover, we consider that

it is not desirable to discourage the accumulation of reserves to protect the savings of members who, for the most part, receive small or very moderate incomes.

It will be observed that in order to come within the provisions of section 4 (q), an institution must derive its revenues from loans made primarily to members. We are of the opinion that a reasonable interpretation of the terms "primarily from loans made to members" does not debar a credit union from investing a portion of its funds in Government or other securities rather than to have them lie idle. One of the main objectives of a credit union is the encouragement of thrift. To achieve this purpose the credit union must be able to *attract* funds by paying a rate which will encourage its members to accumulate savings.

It was pointed out to us that during the war, the proportion of credit union funds invested in government securities was larger and the proportion used to make loans to members smaller, than normal. This circumstance was attributed to the current shortages of durable equipment and consumer goods, and to the members' response to the government's requests to curtail spending. We are satisfied that as conditions return to normal, a larger portion of the funds of credit unions will be loaned to members. The present abnormal situation should not be considered as affecting the position of credit unions where exemption is claimed on the ground that it is a banking institution which derives its revenues from loans made primarily to members.

With regard to section 92, evidence was presented to the Commission that deduction of the tax of 7 per cent from share dividends at the source have been required in at least one province, but that in other provinces the policy has been to relieve credit union officers of this duty. It was argued, and with some justice, that dividends paid on withdrawable shares were similar to interest payments on bank deposits and should therefore not be subject to deduction at the source. We are inclined to the opinion that, in view of the administrative work involved, it would be better to exclude credit union share dividends from deduction at the source, under section 92, and to require the unions to report to the Department of National Revenue all payments of dividends or interest in excess of such minimum amount as may be desirable from the standpoint of administration.

SUMMARY OF RECOMMENDATIONS REGARDING CREDIT UNIONS

1. That the income of credit unions or Caisses Populaires continue to be excepted from taxation under section 4, paragraph (q) of the Income War Tax Act.
2. That section 4 (q) of the Income War Tax Act be amended to make it clear:
 - (a) that it includes federations whose membership may comprise other credit unions, co-operative associations, parishes, school districts and other similar bodies.
 - (b) that organizations excepted thereunder must derive their revenues primarily from loans made to members.

**PART
III**

PART III

Mutual Insurance Organizations

We were also directed to enquire into the application of income and profits tax measures to organizations formed and operated on a "mutual basis"—and into the comparative position in relation to taxation of persons engaged in business in direct competition with mutuals. Accordingly, a number of briefs were filed and witnesses representing mutual fire insurance companies of different types, as well as representatives of joint stock insurance companies engaged in fire, automobile and casualty insurance, appeared before the Commission. Representatives of agents of fire insurance companies were also heard. We were not directed to make any enquiry respecting life or marine insurance companies, mutual or otherwise, and hence representations were not made by these organizations.

Reference has already been made in Part I of this Report to certain sections of the Income War Tax Act and Excess Profits Tax Act, 1940, which are relevant to the discussion of co-operatives. The following sections of various legislation are of special significance in the discussion of mutual insurance activities and organizations. Section 4 of the Income War Tax Act provides that the following shall not be liable to taxation:

"Mutual Corporations"

- (g) "the income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies except such amount as is credited to the shareholder's account"

"Farmers' Associations"

- (i) "the income of such insurance mortgage and loan associations operated entirely for the benefit of farmers as are approved by the Minister"

Section 4 (p) of the Income War Tax Act, (discussed in Part I) which applies to co-operatives engaged in marketing or purchasing activities is also of significance in relation to certain co-operative organizations which carry on an insurance business.

Section 7, paragraph (a), of The Excess Profits Tax Act, 1940, provides that the income of organizations exempt under section 4 (g) and 4 (i) of the Income War Tax Act as quoted above, shall not be liable to taxation.

While the Special War Revenue Act is outside our terms of reference, numerous representations were made with respect to the tax levied on the net premiums of fire insurance companies in accordance with the provisions of this legislation. For convenience of reference, we reproduce the relevant sections of this Act as amended in 1942, chapter 32.

- (2) Paragraph (b) of section thirteen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932 and amended by section two of chapter fifty of the statutes of 1932-33, is repealed and the following substituted therefor:—

"(b) "Company" includes any corporation or any society or association, incorporated or unincorporated, or any partnership, or any exchange, or any underwriter, carrying on the business of insurance, other than a fraternal benefit society, a corporation transacting marine insurance, or a purely mutual corporation in respect of any year in which the net premium income in Canada of such

mutual corporation is to the extent of not less than fifty per centum thereof derived from the insurance of farm property or wholly derived from the insurance of churches, schools or other religious, educational or charitable institutions;”

4. Paragraph (f) of the said section thirteen is repealed and the following substituted therefor:—

“(f) “net premiums” means, in the case of a company transacting life insurance, the gross premiums received by the company other than the consideration received for annuities, less premiums returned and less the cash value of dividends paid or credited to policyholders; and, in the case of any other company, the gross premiums received or receivable by the company or paid or payable by the insured less the rebates and return premiums paid on the cancellation of policies: Provided that in the case of a mutual company which carries on business on the premium deposit plan and in the case of an exchange “net premiums” means the actual net cost of the insurance to the insured during the taxation period together with interest on the excess of the premium deposit over such net cost at the average rate earned by the company on its funds during the said period;”

5. Section fourteen of the said Act, as enacted by section one of chapter fifty-four of the statutes of 1932, is repealed and the following substituted therefor:

“14. (1) Every company authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance, other than an association of persons formed on the plan known as Lloyds, a mutual company not carrying on the business of life insurance, and an exchange, shall pay to the Minister a tax of two per centum upon the net premiums received by it in Canada less net premiums paid for reinsurance to companies or associations to which this section applies, during the year 1941 and each calendar year thereafter.

(2) Every association of persons formed on the plan known as Lloyds, and every mutual company not carrying on the business of life insurance and not carrying on business on the premium deposit plan, authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance, shall pay to the Minister a tax of three per centum upon the net premiums received by it in Canada, less net premiums paid for reinsurance to companies or associations to which this section applies, during the year 1941 and each calendar year thereafter.

(3) Every mutual company authorized under the laws of the Dominion of Canada or of any province thereof, to transact the business of insurance and which carries on business on the premium deposit plan and every exchange so authorized shall pay to the Minister a tax of four per centum upon the net premiums received by it in Canada during the calendar year 1941 and each calendar year thereafter.

In discussing mutual insurance, it may be useful to study the following definition found in the Ontario Insurance Act: “Mutual Insurance” means a contract of insurance in which the consideration is not fixed or certain at the time the contract is made and is to be determined at the termination of the

contract according to the experience of the insurers in respect of all similar contracts, whether or not the maximum amount of such consideration is predetermined”.

Mutual Organizations of Different Types

A number of different groups of mutual insurers, including farmers mutuals, submitted briefs to the Commission, explaining their methods of operation. A brief description of the main groups follows.

Farmers mutual insurance companies are of special importance in Ontario and Quebec. It is interesting to note that legislation to provide for the organization of mutual insurers was provided in Quebec as early as 1818. Farmers mutuals in all provinces operate on the basis of premium notes, subject to cash payment and/or assessment. In the Ontario Act, for example, the “surplus” of a farmers mutual is defined as “the assets of the insurer other than the premiums note residue after deducting therefrom all liabilities of the insurer (other than contingent liabilities or unmatured contracts) and the proportion of cash payments and instalments thereof paid in advance, applicable to unexpired policy contracts calculated as required by subsection 5 of section 73”. In the main, the methods of organization and operation of the farmers mutuals in Ontario are the same as those of the other provinces. Some indication of their importance is found in the fact that 65 Ontario farm mutuals serve 140,000 rural policyholders, and their total business is about 90 per cent rural. In Quebec, according to the evidence presented to the Commission, there are 320 mutual farmers insurance companies, including county, municipal and parish groups, with total insurance written amounting to about \$180,000,000.

Before dealing with other classes of mutual insurers, certain other features which tend to distinguish farmers mutuals should be borne in mind. They specialize in farm risks, a field in which joint stock companies are not active to any great extent. Furthermore, these groups, as shown by provincial statistics, are economical in operation. Their local character gives the officials a special opportunity of appraising farm risks, as they know the properties they are insuring and the people they are dealing with. Further, from the evidence submitted, it appears that statutory safeguards with respect to minimum rates and maximum risks are being carefully followed. In short, the farmers mutual appears to meet a need which is not met to the same extent by other types of insurers.

Other mutual fire insurance groups also specializing to a considerable extent in farm risks have a large membership, in contrast with the local farm mutuals. These include the “Cash Mutuals”, which commenced operations on the premium note basis, but are now operating on the cash premium basis as well. Mutuals operating on both the cash premium and the premium note plan are of special importance in Ontario, and in Western Canada, insuring a large number of farmers. It was also submitted that in addition to farm risks, a large number of village and other risks have been insured by these and other farm mutuals, where municipal or other fire fighting facilities are not available. In some cases, these mutuals have entered the casualty insurance field, as well as the urban insurance field in connection with both residential and commercial property. Four farm cash mutuals in Ontario made submissions to the Commission. These bodies are incorporated under the Ontario Insurance Act.

The four cash mutuals in question contended that departure from the premium note system was made necessary to counteract the criticism by joint stock companies that the liability of the policyholder in a mutual company was never fixed, but was undetermined and unlimited, and that in consequence,

a mutual policy gave little security. For this reason it was considered desirable to give the insurer a choice between the cash premium and the premium note mode of insurance, with the result that a considerable proportion of the business of Canadian mutual fire insurance companies, apart from the regular farmers mutuals, has been developed on the cash premium basis. Another contention advanced by the cash mutuals was that while they tended to give their policyholders the benefit of lower rates rather than cash dividends, it was of special importance for them to build up reserves in view of the predominance of farm and village risks written.

The following quotation from the Ontario Insurance Act, Section 275, deals with the reserve fund to be accumulated by a mutual fire insurance company:

"(1) Subject to the provisions of sub-section 5, a Mutual or Cash-Mutual insurance corporation may form a permanent reserve fund, to consist of such part of the net profits as may from time to time be set aside by the directors for that purpose; or to be made up by annual assessments for that purpose not exceeding, for any single assessment, 10% on the premium notes held by the corporation, until the total fund reaches two per centum of the corporation insurance in force.

(2) Such funds shall be held for the security of the insured and shall be subject to the provisions of this Act relating to the investment of the funds of insurance companies.

(3) The net income from the fund shall be included in the general receipts of the company, and shall constitute a part of the 'net profits', if any, as defined in this section.

(4) The fund so accumulated shall be used for the payment of losses and expenses when the cash funds of the company in excess of an amount equal to its liabilities (including guarantee capital, if any) are exhausted, and when the said fund is drawn upon the allocation of profits or assessments as aforesaid may be retained or continued until reached.

(5) The said fund may not be reduced by the payment of dividends to shareholders or members, or by a reduction of current premiums below the limit of 2% of the insurance in force hereinbefore mentioned, but it may be increased beyond."

Another group of mutuals, the American Mutual Alliance, which made representations to the Commission, are organizations with a membership consisting of business enterprises, either incorporated or unincorporated. These mutuals have their headquarters in the United States, but are licensed to do business in Canada. While these mutuals are comprised of business enterprises, their basis of organization and methods of operation are somewhat similar to those of mutuals comprised of individual persons. They are organized without share capital, with membership confined to policyholders, each member company or enterprise has one vote at meetings of the mutual, a cash premium is paid and the unabsorbed portion returned to the member. The companies comprising this group maintained that their object was to transact business for their members at cost, and that in this connection 98 per cent of the premiums paid by members from 1929 to 1943 had been used, first, to pay losses, second— to pay expenses, and third— as dividends or refunds to policyholders.

Another group of mutuals which made representations to the Commission is also comprised of incorporated companies. These are sometimes known as the New England Factory Mutuals. One feature which distinguishes this group from mutuals of other types is the so-called premium deposit.

Each policyholder is required to deposit an amount at the time the policy is issued, which may be considerably in excess of the net cost of insurance for one year. Each member company is charged with its pro-rata share of losses and expenses, as well as contributions to reserves. When the policy is cancelled or expires, the charges are totalled and the balance of the deposit is returned to the member.

In connection with the deposits required from members of factory mutuals, it was stated that on the average the absorbed portion of the premium deposit may be approximately 10 per cent. On the other hand, it was contended that the high value of the individual risks insured, even though carefully selected from the standpoint of fire protection, rendered large premium deposits necessary. The risks insured are carefully selected, consisting almost exclusively of manufacturing and commercial properties of high grade construction, fully equipped with sprinkler protection, according to the specifications of the insurer. According to the submissions made to the Commission, the amount of insurance written by Factory Mutuals in the United States and Canada during 1943 was \$16,700,000,000, comprised of about 10,500 individual risks. Of this amount the Canadian business was about 7 per cent.

Another group of mutuals which is quite different from the standpoint of organization are known as Inter-insurers or Reciprocal Exchanges. This group, which was represented before the Commission by the American Reciprocal Association, includes amongst its membership twenty exchanges with headquarters in the United States. Ten of these exchanges do substantial business in Canada. The exchange, as such, is not incorporated, thus differing from all other mutual insurance groups. Nearly all the members (subscribers) at each exchange are corporate bodies. It is stated that the object of the subscribers is to insure one another. To accomplish this it is necessary to appoint a common agent or attorney to transact the business of the exchange. Each subscriber, therefore, gives a power of attorney to the common attorney or agent to transact business on his behalf. This attorney is known as "Attorney-in-Fact". The attorney collects the monies from each subscriber, which are placed to the credit of the subscriber and remain his property, so that each subscriber has an individual account. The attorney deducts from this, such sum as is necessary to pay losses and expenses and to provide necessary reserves and surplus for contingencies. The part not needed is returned to the subscribers annually. In the event of withdrawal of a subscriber from the exchange, the subscriber receives from the attorney all the money to his credit, including his share of any reserves or surplus. In practice, while the risks insured through reciprocal exchanges are carefully selected, it is found expedient to have the amount deposited by the subscriber sufficient to meet contingencies, including unexpectedly high losses. This reserve for contingencies is provided for in the subscribers agreement. The reserve is, of course, invested, and as such, produces some income which is credited to subscribers. The Attorney-in-Fact is subject to supervision by an advisory committee of subscribers. Each exchange is licensed under a firm name. Unlike other mutuals, proxy voting is permitted at meetings of the exchange. Another distinction is that the equity of each subscriber in the reserve fund is retained by the exchange from time to time, but subject to withdrawal.

Reference should also be made to the stock mutuals, although no witnesses were heard in behalf of this group. There are only a few companies of this type. They were organized originally as purely mutual companies on the premium note system. Later they were given authority to issue capital stock and to sell cash premium policies, but policyholders on the cash premium plan are excluded from membership. Dividends are paid on capital and premium notes in force are subject to assessment.

Another insurance organization carrying on business on a co-operative basis is known as the Pool Insurance Company. This company was organized in 1939 by the three Western Wheat Pools under the Manitoba Companies Act. The object was to enable the three Pools to insure their own elevators and distribute any savings accruing from the business of the company on a patronage basis. In 1940, a charter was secured from the Parliament of Canada to enable the company to comply with the ruling of the Board of Grain Commissioners, that insurance on grain in licensed elevators must be carried with an insurance company under a Dominion license. The company is organized with share capital and may pay a dividend thereon of not more than 5 per cent. The balance has been distributed in the form of an excess charges refund, in proportion to earned premiums paid to the company by the policyholders.

The competitors of mutuals in the field of fire, casualty and automobile insurance are joint stock companies, which conduct their insurance business exclusively on the cash plan. These include British joint stock companies, foreign joint stock companies, including mostly United States firms, and joint stock companies with head offices in Canada.

The Competitive Position.

Some indication of the competitive situation as between the mutual insurance companies and the joint stock companies is provided by statistics furnished by the Dominion Superintendent of Insurance regarding the business transacted by fire and casualty companies operating under a Dominion license. In 1943, the premium income of 267 fire and casualty insurance companies reported was \$99,897,515. Of this amount, 11 reciprocals received 0.6% of the total premium income, 11 deposit premium mutuals received 1.1%, 30 other mutuals including the American Alliance group, and Canadian Mutual Companies received 11.8%, three stock mutuals received 1.9%, while 212 joint stock companies received 84.6% of the premium income.

The so-called "underwriting profit" or "gain from underwriting" of these companies amounted to \$5,498,546 in 1943. Of this amount the reciprocals had 4.3%; the deposit premium mutuals, 6.8%; other mutuals, 19.9%; the stock mutuals reporting 4%; and the joint stock companies, 65%. In this connection reference has already been made to the method of calculating the "Net Premiums" of the reciprocals and the premium deposit mutuals as set forth in the Special War Revenue Act. This has a bearing on the proportion which the underwriting profit of these companies bears to the premium income, as compared with mutuals of other types and of joint stock companies.

While many of the principles adopted and conclusions reached in Part I of the Report are applicable to mutual insurers, still, certain differences in methods of operation between co-operative associations and insurers merit special consideration.

SOME COMPARISONS BETWEEN MUTUALS AND JOINT STOCK COMPANIES

Representatives of joint stock companies pointed out that there were certain similarities between their type of organization and that of the mutuals. This is true. With the exception of the reciprocal exchanges, both groups enjoy corporate status, and the advantages deriving from limited liability. Both are required by legislation to maintain certain reserves for the protection of policyholders. The same insurance company terminology is used with respect to both groups.

There are, however, certain obvious differences between the two types of organization. In a joint stock company the persons who own and control the enterprise are, by and large, a different group from those who make use

of its insurance services. In a mutual company, on the other hand, there is identity of interest between owners and users. This distinction is less clear, however, where a part of the surplus of a stock mutual is distributed on the basis of shares held. The difference is also less well defined where a mutual writes cash policies, some of which are subject to the payment of dividends on the basis of premiums paid by policyholders, and some of which are not. A further distinguishing feature between the two types of insurers rests in the fact that in mutual insurance the application for and payment of a policy is, in practice, synonymous with membership. Viewing the two types as a whole, it is evident that the control of a mutual and participation in its surplus, if any, is vested in those who use its services as policyholders, whereas the control of and the participation in the surplus of a joint stock company is vested in those who use it for investment as shareholders.

Some Contentions advanced by Joint Stock Companies

The first of the contentions of the joint stock companies was that the "dividend" paid on premiums to policyholders in a mutual was akin to a distribution of profits and, therefore, taxable. Admitting the joint stock companies' contention that fire insurance risks are more difficult to estimate in advance than life insurance risks, where the use of statistics and actuarial formulae makes a close estimate possible, this does not detract from the similarity between a dividend paid by a fire insurance mutual and a similar payment by a life insurance mutual. As stated in Part I of this Report, we are of the opinion that a dividend paid in proportion to patronage is a characteristic feature of the co-operative or mutual way of doing business. The members of a mutual pay premiums for two purposes, to insure one another and to maintain the organization necessary to conduct this service. If they find that they have paid more than is required to meet losses, expenses and to provide for necessary reserves, they can secure a refund in proportion to the premium paid. It is impossible to regard such a payment to the insured as a profit taxable in the hands of the insurer. If, however, a portion goes not to the insured, but to the shareholder, as a return on his investment, such a payment is not a rebate on an overpayment for insurance, but a reward for investment and risk undertaken by the shareholder who provides the service for policyholders. We are of the opinion that a return of a dividend on a premium is not essentially different from the unassessed portion of a premium note. Both are necessary to the mutual way of doing business.

A further contention advanced by the joint stock companies was that mutuals should be assessed for income tax on precisely the same basis as joint stock companies. Here again the difference between the methods of operation of the two groups would render the incidence of such a tax inequitable as far as the mutuals are concerned. It would not only involve taxing the "dividend" to which reference has already been made, but other funds in the hands of the mutual, exigible by the policyholder. A premium payment in a mutual serves to pay losses and expenses and also to provide operating capital. A refund in the form of a dividend on premiums is not profit of the mutual. Any amount retained by the mutual but exigible by the policyholder is not income of the mutual but a fund contributed partly for operating capital and partly to pay unexpected or future losses.

Mutuals may have Income

In Part I of this Report we have endeavoured to distinguish what the co-operative retains permanently and what is actually paid by the co-operative to its members or is exigible by them. The question, therefore, arises whether mutuals in which there is no proprietary interest other than that of policy-

holders, earn or receive any revenue which is liable to tax. If they receive a net income, to whom does it inure—to the mutual or to the members? We are of the opinion that mutuals can and do, under certain conditions, have income which may be made liable to tax. This income may arise partly from investments and partly from other operating gains. What the mutual receives and retains in the form of investment income, plus other additions to surplus which are free from claims of policyholders, may be regarded as income, which should be liable to tax.

Mutuals Specialize in Certain Fields

It was clearly established during the course of our hearings that some mutual organizations specialize in insuring farm risks and render a much needed service in that field, which is not provided to any appreciable extent by other insurance organizations. In addition, village and town property, unprotected by municipal or other fire-fighting organizations, are insured almost entirely by mutuals. The reasons why mutuals are able to insure risks of this kind have already been indicated. In view of the great need for expansion of insurance services with respect to rural areas, we consider it undesirable from the point of view of public interest to impose any tax which would make it more difficult for mutuals or other insurers to develop still further this much needed insurance service in all rural districts. As a matter of fact, no case was brought to our attention in which a joint stock company suffered loss of business or was otherwise prejudiced by the operations of a farm mutual. The general contention rather was that all mutuals should be taxed on the same basis as joint stock companies. It would appear that mutuals are making progress in certain highly specialized fields, but that the overall picture shows little change. Both types of insurers appear to be giving an efficient service. There is no evidence to suggest that the progress of the mutuals is due to tax exemption. This does not mean, however, that they may not have some taxable income.

Some Contentions advanced by Mutuals

The main contention of the mutuals is that they endeavour to operate at cost, and further, that their operation thereby tends to reduce insurance rates generally. On the other hand, this does not dispose of the argument that mutuals can and do, in some instances, have taxable income. There were, however, other arguments advanced by the mutuals to indicate the inequity of their position. These merit careful attention. They include:

- (a) That the difference in the rates imposed with respect to the premium tax under the Special War Revenue Act is unwarranted. Spokesmen for the mutuals took the view that a tax at a uniform rate should be paid by all companies, and that they were ready to continue paying such a tax. While the Special War Revenue Act is outside the scope of our terms of reference, we have to report that very considerable dissatisfaction exists with respect to the existing rate structure, and we are of the opinion that this matter should be reviewed by the Government before any income tax is imposed on mutuals.
- (b) Canadian mutuals referred to the fact that investment income is excluded from taxable income in Canada in connection with the operations of British and foreign insurance companies. This appears to be a departmental arrangement with these companies which has been in effect for some years. While Canadian joint stock insurance compa-

nies made no complaint regarding this arrangement, some Canadian mutuals contended that it involved discrimination against Canadian stock companies.

- (c) Critical reference was also made to the exemption from income tax of marine insurance companies and the exemption granted to such companies under the Special War Revenue Act. No representative of marine insurance companies made submissions to the Commission, and we are not requested to investigate their tax position. We simply report the criticism expressed.

CONCLUSIONS

We are of the opinion that mutuals can and do have income which is subject to tax. This income results from investments and operating gains which are free from claims of policyholders. At the same time we consider that mutuals in certain specialized fields are rendering a service which is not provided by other organizations, notably, in insuring farm and other unprotected rural risks. These mutuals tend to keep their rates as low as is consistent with the risk involved. We consider that it would not be in the public interest to impose income tax upon those insurers whose activities are primarily in these fields.

Considering the situation as a whole, we are of the opinion that the income tax should not be imposed on mutuals without a review of the varying rates of existing premium tax under the Special War Revenue Act, the taxation of investment income of British and foreign insurance companies and the position of marine insurance companies.

Summary of Recommendations

We therefore recommend as follows:

1. That the Income War Tax Act and The Excess Profits Tax Act (1940) be amended to provide for the taxation of mutual organizations carrying on the business in Canada, of fire, casualty and automobile insurance, in accordance with the recommendations which follow.

2. That dividends on, or refunds of premiums to policyholders, whether paid in cash or applied against renewal premiums, together with any unabsorbed premiums or premium deposits returned to or payable to policyholders, and any other amount credited to a policyholder or subscriber in such a way that it is exigible by him on giving such notice as may be deemed reasonable, be allowed as a deduction in computing taxable income.

3. That joint stock companies and other insurers writing fire, automobile and casualty insurance, which pay dividends or make refunds of premiums to policyholders be allowed to deduct such dividends or refunds in computing taxable income.

4. That before giving effect to the foregoing recommendations the incidence of the tax on net premiums of mutual insurance organizations under the Special War Revenue Act, the exemption from taxation granted to marine insurance companies, and the treatment for income tax purposes of investment income in Canada accruing to British and foreign insurance companies, should be reviewed by the Government;

(5) That the income of any insurer, mutual or otherwise, shall not be liable to taxation when in any year the net premium income in Canada is derived, to the extent of not less than 50% thereof, from the insurance of farm

property and other property not protected by municipal or other fire fighting organizations, or is derived wholly from the insurance of churches, schools or other religious educational and charitable institutions.

The present Report is signed by all the members of the Commission subject, however, to such reservations and comments as are appended hereto.

The whole respectfully submitted,

ERROL M. McDOUGALL,
Chairman.

B. N. ARNASON,
G. A. ELLIOTT,
JEAN-MARIE NADEAU,
J. J. VAUGHAN.

Ottawa, September 25th, 1945.

Memorandum of Comments and Reservations

by B. N. ARNASON

In Part I, section IV, of the Report reference is made to the ambiguities contained in section 4, paragraph (p) of the Income War Tax Act. The opinion is there expressed that great hardship would result should the recommendations in the Report be made to apply retroactively. The opinion is also expressed that many co-operative associations would be prejudicially affected if the existing law were to be interpreted so as to make them liable for the payment of taxes subsequent to the enactment of section 4 (p). The hope is also expressed that co-operative associations which have conducted their affairs in the light of a possible, even plausible, construction of the paragraph in question, will be afforded relief from the payment of taxes on patronage dividends actually or constructively paid since the enactment of 4 (p).

Although I do not intend this as a dissent to the Report, I desire to emphasize particularly the serious consequences which would follow, for co-operative organizations and their members, if co-operatives were to be required to pay taxes on patronage dividends paid or allocated since the enactment of section 4 (p). While paragraph (p) appears ambiguous, members and officials of co-operatives have undoubtedly endeavoured to conduct the affairs of their organizations in the belief that at least patronage dividends, paid or allocated, would be exempt. If these dividends were to be taxed the results might well be disastrous for the co-operatives concerned, as well as a hardship for their members.

It is also to be remembered that many co-operative associations have set aside unallocated reserves to preserve the equity of their members. These reserves have in many instances been set aside as a result of either statutory requirements in provincial co-operative legislation, or in accordance with special Acts of Incorporation, and also by reason of the belief that they had authority to set aside "necessary reserves" under section 4 (p).

For the reasons stated, I submit that it would not be in the public interest to assess such co-operatives for income taxes for the period subsequent to the enactment of section 4 (p).

In Part I, section VI 3 (a) of the Report, it is recommended that amounts paid by co-operative associations and other businesses in proportion to patronage be allowed as a deduction, if credited to the member or customer, provided the payment so credited may be withdrawn on giving reasonable notice. The same principle is embodied in recommendation number (4) regarding deductions from the gross proceeds of a customer's product. Reference is made to Appendix D as a guide as to what may be a reasonable notice. This refers to the practices followed by co-operative societies in Great Britain respecting the withdrawal of share capital.

It is desirable that the rights of the member of a co-operative to withdraw the funds which he has invested therein be clearly established, both from the viewpoint of sound co-operative practice and to distinguish clearly what belongs to the member, as compared with what is retained permanently by the co-operative. While British practice is a useful guide in this respect, it is necessary to consider the conditions under which Canadian co-operatives operate. In Great Britain, co-operative societies deal mostly in consumer goods the demand for which is quite steady, notwithstanding fluctuations in employment amongst the membership. The societies are well established financially, have large reserves and as a result are in an excellent position to meet promptly any demands for withdrawals of share capital by their members. In Canada, on

the other hand, co-operatives are engaged mostly in marketing agricultural or other primary products, the volume of which may fluctuate sharply from year to year and decline decidedly over a period of years. As for farm supply co-operatives, their business is not only seasonal, but the volume of trade is directly related to variations in the income of the members derived from the production of primary products. In addition to that, the majority of co-operatives in Canada do not have reserves comparable to those of British co-operatives.

While I concur with the recommendation that the member should be allowed to withdraw patronage dividends or other amounts credited to him on giving reasonable notice, consideration of what constitutes such reasonable notice must have reference to conditions that prevail in Canada. The main point, I suggest, is the member's right of withdrawal on giving such notice as will enable him to realize on his equity without endangering the equity of other members. This can be done without insisting that the practice, from the point of view of the time element involved, be precisely the same as is general under British conditions.

This consideration leads to another. The Report seeks to distinguish between what the co-operative association keeps for itself and what the member can effectively claim as his own—that is, what is “exigible” by him. The latter includes patronage payments paid in cash or applied against obligations incurred by the member to the association with respect to investment, or amounts credited to him but withdrawable on reasonable notice. This again is in accordance with British practice. Canadian co-operatives have, however, found it necessary to defer the payment of patronage dividends or deductions from gross proceeds of members' products for varying periods. This method of financing has been found necessary under conditions that prevail amongst agricultural co-operatives, where the volume of business may fluctuate sharply from year to year, and where large capital expenditures are needed in contrast to the requirements of consumers societies. The Commission takes the view that where amounts are deferred for an indefinite period at the sole discretion of the directors, such amounts should only be deductible for tax purposes when actually paid to the members.

There is, however, another method which is not dealt with in the recommendations, and that is, where the bylaws of an association or contract with the members, provide that deductions from gross proceeds or patronage dividends shall be deferred for a definite period only. Where the date of payment is set at a definite date in the future in such a way that there is an irrevocable undertaking to pay, which cannot be altered at the will of the association, such deferred payments cannot be considered as “income” of the association and taxable in its hands. Such deferment is not inconsistent with practices followed by British co-operatives when adapted to conditions under which Canadian co-operatives have to operate. It represents an intermediate method as between capital which can be withdrawn at any time and capital which can only be withdrawn with the consent of the association. It establishes clearly the obligation to the member. It is a method which has been found essential to the requirements of many agricultural co-operatives. To allow patronage payments, deferred for a definite period under a definite obligation to pay, as a deduction in computing taxable income, will avoid the result that Canadian co-operatives are more restricted in financing with funds payable to their members than are those co-operatives in the United States which are not exempt from Federal income tax, but are nevertheless allowed to deduct allocated dividends in computing taxable income.

I, therefore, recommend that deductions from the gross proceeds of a member's product, or patronage dividends, which are retained by a co-oper-

ative association for a definite period with an irrevocable obligation to pay at the time stipulated, be allowed as a deduction in computing the taxable income of such association.

With the exception of new associations and co-operatives of certain types designated in recommendation number (9)—see section VI, Part I of this Report, the recommendations involve the taxation of co-operative purchasing and marketing associations on their unallocated reserves. The evidence submitted to the Commission, however, makes it clear that co-operatives are a more unstable type of organization than other businesses. In addition, they are unable to attract capital for investment purposes to the same extent as a joint stock company and are forced to rely on contributions from people of limited means who desire to use their services. Furthermore, most co-operatives in Canada are engaged in serving agriculturists and other primary producers which means considerable fluctuation in the volume of business done. This state of affairs is recognized in provincial co-operative legislation across Canada by statutory provisions regarding reserves to safeguard the equity of the members.

In view of certain weaknesses inherent in the co-operative type of organization as dealt with elsewhere in the Report, and also in view of the fact that by and large members of co-operatives are people with low incomes who are in a difficult position to make special contributions to offset heavy losses sustained by their organizations, I suggest that in the public interest co-operatives should be allowed to set aside limited reserves for protecting the equity of their members, before computing taxable income. For tax exemption purposes, such reserves might be limited to the minimum provisions for similar reserves as set forth in provincial co-operative legislation. An alternative basis for a reserve to guard against impairment of the members' equity in a co-operative might be a yearly appropriation equivalent to 2% of the net assets until the amount in such reserve is equivalent to a maximum of 20% of such net assets. These might be defined as total assets, reduced by valuation reserves, less liabilities to the public and less current liabilities to members.

It was also contended at the hearings of the Commission that certain other businesses, especially those engaged in handling agricultural products, are subject to considerable variation in income and find it difficult to set aside sufficient reserves for unforeseen contingencies. Although these businesses are at present in liquid position, this might easily be reversed with changing economic conditions. It would, therefore, appear that consideration should be given to allowing other types of businesses to set aside limited reserves to guard against the impairment of capital before computing taxable income, provided the necessary application in this regard is made to the Minister and he is satisfied that such reserves are warranted. In so far as co-operatives and other businesses are confronted with comparable problems, after taking into consideration the weaknesses inherent in the co-operative type of organization, such a policy would assist in achieving a measure of equality between the two types of business activity.

I, therefore, recommend that from the point of view of the public interest co-operative purchasing and marketing organizations be allowed to set aside limited reserves to guard against the impairment of capital and unexpected losses, before arriving at taxable income.

I also recommend that consideration be given to allowing other types of businesses to set aside similar reserves, before arriving at taxable income, where the Minister is satisfied that these are warranted.

Respectfully submitted,

B. N. ARNASON.

Comments

by J. M. NADEAU

I do not intend to make this a reservation to the Report and recommendations with which I am in entire agreement. I do feel, however, that particular emphasis should be laid on the uncertainty of the position of co-operatives in the matter of the application of section 4 (*p*) of the Income War Tax Act. Therefore, I respectfully suggest that any action which might be taken to enforce the collection of past due taxes by the Government should be motivated by the idea of not imposing, in the public interest, any undue hardship on farmers' and fishermen's co-operatives which conducted their affairs in good faith, believing, as they did, that patronage dividends paid or allocated were not liable to taxation under existing acts.

Unallocated reserves in many instances are equivalent to "necessary reserves" as authorized in section 4 (*p*) in order to protect the member's equity. I believe it is also in the public interest that such unallocated reserves should be given the same tax exemption from taxation as suggested for allocated patronage dividends in the foregoing paragraph.

Respectfully submitted,

JEAN-MARIE NADEAU.

Memorandum of Comments and Reservations

by J. J. VAUGHAN

I regret that I cannot join my colleagues in making this Report unanimous in all respects. Although I do not subscribe to all the arguments contained therein, I am in agreement with the taxing of co-operatives to the extent set out in the recommendations. As the adoption of this measure of taxation only, would fall far short of removing the present inequality of taxation as between Co-operatives and Companies, it is necessary in my opinion that some further remedial action should be taken.

I should like to make it clear that I am not opposed to co-operatives. On the contrary, I believe they have been and are serving a very useful purpose, particularly in the remote parts of the country, in providing a means whereby groups may be formed to improve their economic position. That co-operatives have a place in our national economy is unquestioned. But it must be said that Companies also have a very important place in that economy. Indeed much of the development of Canada up to the present time may be attributed to the initiative of Companies, made possible by their employment of capital, largely subscribed by private investors. This capital has enabled Companies to embark on new forms of enterprise, to expand businesses already established, to provide employment, to increase the wealth of the country, and to raise the standard of living. Companies also have afforded a channel for investment which has enabled many people to earn a better return on their savings and surplus funds than otherwise would have been possible. Therefore, it is highly desirable that companies should be permitted to proceed as in the past and that they should be able to produce a return that will encourage the investment of capital, much of which will be needed in the reconstruction period of the future.

At many points throughout Canada the competition is keen between co-operatives and companies, but companies, as has been so forcibly pointed out at our hearings, are competitively in an unfair position; they are required to pay a heavy income tax and in many cases an excess profits tax while co-operatives are exempt from these taxes, thus leaving the latter in the advantageous position of being better able to build up reserves and expand their activities. Having regard to the fact that Canada is a fertile field for co-operatives and that they are now well established under able direction, and that they are sponsored and aided by provincial governments, there is every reason to expect a substantial expansion in their business. This expansion as it takes place will result in increased competition and render the tax inequality more pronounced, unless some remedial action is taken.

As the measure of taxation to be imposed by the Commission on co-operatives, as recommended by the Report, will not, as already stated, remove the inequality that exists, and inasmuch as further action, in my opinion, is necessary, there seem to be two courses to consider. One is to impose a further amount of taxation on co-operatives, and the other is to remove a part of the taxation now imposed on companies. The methods employed by co-operatives in operating and accounting are entirely different from those employed in ordinary business. Included in their surplus are operating profits, income from investments and balances owing to members on products and commodities handled, all blended in a way that the exact profit is not determinable. As a result it is very difficult, if not impossible, to further apply an income tax to co-operatives. That co-operatives do make profits is stated in the Report, and with that statement I agree, and that they are efficiently managed on the whole is unquestioned, so it logically follows that such profits should be comparable with those made by similar competing businesses. But as these profits do not appear separately in the books of co-operatives and as the income tax cannot readily be applied to their entire profits, some other form of tax would appear to me to be more appropriate if the first course mentioned should be followed. However, the recommendation of any form of tax other than the income tax would be beyond the scope of the terms of reference in P.C. 8725.

The second course mentioned is to remove a part of the taxation now imposed on companies. The other members of the Commission have expressed their opinion that to recommend such action would be beyond the scope of the terms of reference contained in P.C. 8725. I do not, however, concur in this, and quote what I regard as the relevant parts of the order which in my opinion grant the Commission such power viz., that the Commissioners named be appointed—

“to inquire into”—

- “ (b) the organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with co-operatives,

and report, in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and The Excess Profits Tax Act, 1940 to co-operatives and to persons other than co-operatives in respect of methods of doing business

analogous to co-operative methods, such as the making of payments commonly called patronage dividends *and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest;*"

Accordingly, I believe it is in order and appropriate that the comparative position of Companies with Co-operatives in relation to taxation should receive consideration.

In our hearings from Vancouver to Halifax, various Boards of Trade, the Canadian Chamber of Commerce, the Canadian Manufacturers Association and other bodies and companies emphasized the unfairness of the so-called double taxation in Canada, i.e., the taxing of the entire profits in the hands of the Company and the taxing again in the hands of the shareholders of that part of the profits which is received by them in dividends. Also it was advocated by those appearing, that as a measure towards remedying the unfairness of the present taxation of companies as compared with the tax exemption granted co-operatives that this double taxation be removed. It should be noted that such double taxation is not in effect in England, Australia or New Zealand.

As the imposition of any further measure of income tax on co-operatives than that recommended by the Commission is regarded as impracticable, and as the recommendation of any other form of tax would be outside the jurisdiction of the Commission, my opinion is that the second course should be followed. In respect to this, the extent of the loss to the National Treasury also must be considered.

Having due regard to the foregoing, my recommendation is that the corporation income tax be reduced from 40% to 30% and that shareholders paying income tax in Canada be allowed a credit of 50% of the tax paid by the company, in respect to their dividends.

The adoption of this recommendation would serve a twofold purpose. It would be a further step in removing the inequality in taxation as between Co-operatives and Companies, and it would remove in some measure, the double taxation which is so much complained of at the present time.

J. J. VAUGHAN.

APPENDIX A

RELATIVE GROWTH OF CO-OPERATIVE BUSINESS IN CANADA

- I. Questions of classification
- II. The pattern of Canadian Co-operation
- III. Analysis of Co-operative marketing of farm produce
 - (A) Comparison of Co-operative marketing and Cash Income Data
 - (B) Proportion of Agricultural Marketing performed by Co-operatives
- IV. Analysis of Co-operative merchandising
- V. Summary
- VI. Tabular supplement
- VII. Charts and Diagrams.

RELATIVE GROWTH OF CO-OPERATIVE BUSINESS IN CANADA

I. Questions of Classification

In order to get some picture of co-operative business and its position in relation to the Canadian economy some classification is necessary.

People commonly distinguish between consumers' co-operation and producers' co-operation. By consumers' co-operation Canadians ordinarily mean the co-operative purchasing of goods and services as is characteristic of co-operative activity in Britain. By producers' co-operation Canadians ordinarily mean the co-operative marketing of farm produce such as is carried on by the Canadian Wheat Pools, by livestock associations and by other groups of farmers united for marketing purposes. Producers' co-operatives are frequently called "marketing" co-operatives. These groupings sufficed to characterize co-operative development in Canada in its earlier stages, and, in fact, till comparatively recently caused little confusion. The greater diversity of current co-operative developments, however, makes greater refinement of classification necessary.

Quantitatively by far the greater proportion of the dollar turnover of Canadian co-operative associations is still effected by "producers" or "marketing" co-operatives and involves the performance, by co-operative organizations, of some of the functions associated with the sale of farm produce. Within this field of activity the terms "producers" or "marketing" are satisfactory so long as understood in the sense in which they are used. Similarly the co-operative retail stores in existence in some Canadian communities can properly be called consumers' co-operatives.

That the two groups are inadequate to cover Canadian co-operative activity to day can be seen by considering the following examples. Is a co-operative which provides tractor fuel for farmer members a consumers' co-operative, or a producers' co-operative, or neither? Is a co-operative farm a producers' co-operative? If so, it is not because the term is used in the sense which so characterizes a wheat pool. Where does a credit union fit in? or a mutual insurance company? Is a co-operative funeral home a consumers' co-operative, and, if so, who are the consumers?

The following classification of co-operative activity, adapted from an American source ⁽¹⁾, would serve to clarify Canadian developments.

- I. Co-operative Sales Associations (also called Farmers' Co-operative Marketing Associations)
 1. Commodity marketing associations
 2. Collective bargaining associations
 3. Sales agencies
- II. Co-operative Purchasing Associations
 1. Consumers' co-operative associations dealing in consumers' goods
 - (a) Retail associations
 - (b) Wholesale associations
 2. Co-operative purchasing associations dealing in producers' goods (e.g. "farm supply" co-operatives)
 - (a) Retail associations
 - (b) Wholesale associations
 - (c) Manufacturing or processing associations

⁽¹⁾ Bakken, H. H. and M. A. Schaars, *The Economics of Co-operative Marketing* (New York, 1937), pp. 204-6.

III. Co-operative Service Associations

1. Credit unions
2. Insurance associations
3. Mutual telephone companies
4. Medical and hospital associations
5. Miscellaneous associations such as restaurant, housing, transportation by bus, recreational, burial, laundry, trucking, garage, etc.

IV. Workers' Co-operative Associations

1. Co-operative workshops
2. Co-operative farms.

Single co-operative associations, of course, frequently combine the functions of two or more of the types included in the above analysis. Associations formed for the sale of farm produce frequently go into the purchase of farm supplies and even into the operation of a consumers' co-operative store. Associations organized as consumers' co-operatives at the retail level may take over wholesale and manufacturing functions, and may provide their members with a range of services provided elsewhere by more specialized co-operatives. The latter type of development characterizes the British co-operative movement.

Canadian categories:

Data on Canadian co-operative organization and activity are classified on bases much less elaborate than those indicated above. The Dominion Bureau of Statistics includes data on co-operative retail stores in its census of Merchandising and Service Establishments. These stores handle consumers' goods, and data concerning them do not include or indicate the volume of merchandise handled by the other type of purchasing co-operatives, those organized to purchase farmers' supplies.

The most important single source of information concerning Canadian co-operative development is the Marketing Service, Economics Division, Department of Agriculture, Ottawa. This branch of the Government has been compiling annual surveys of farmers' co-operative business organizations in Canada since the early thirties. Starting with the collection of data on "farmers' business organizations" they have more recently attempted to restrict their investigations more closely to the co-operative field, though the difficulty of exact definition can readily be recognized. They now consider that their data cover approximately 95 per cent of the business of co-operatives in Canada, though perhaps as many as 30 per cent of co-operatives in number (very small ones) are not included.

In addition to data on such co-operatives as credit unions, insurance mutuels, telephone systems, medical and hospital plans and a variety of miscellaneous kinds, the main co-operative data of the Economics Branch are organized around the following structure of classification. First they are divided into two main groups: (1) Marketing and (2) Merchandising. Then the sub-groups are arranged as follows:

Marketing

- Dairy products
- Fruits and vegetables
- Grain and seed
- Livestock
- Poultry
- Honey
- Maple products
- Tobacco
- Wool
- Fur
- Lumber and wood
- Miscellaneous

Merchandising

- Food products
- Clothing and home furnishings
- Petroleum products and auto accessories
- Feed, fertilizer or spray material
- Machinery and equipment
- Coal, wood and building material
- Miscellaneous

Data classified on this basis are helpful and realistic. The "marketing" co-operatives are those concerned primarily with the sale of farm produce for their members. They are the "co-operative sales associations" or "farmers' co-operative marketing associations" of the American classification outlined above. The "merchandising" co-operatives, as is suggested more by the sub-headings than by the main term, are essentially the farmers' supply co-operatives, those engaged in the purchase of producers' goods for farmers. Since 1941 the Economics Division has expanded its merchandising classification to include consumers' co-operative stores of the non-farmer type.

Yet the classification presents problems. An individual marketing association may handle several products. The Economics Division includes their total sales under the product which is their chief interest. Marketing associations may also handle supplies for their members. The Economics Division divides their sales into (a) produce and (b) supplies, and includes the supplies sales under the proper sub-heading under merchandise sales. Until 1942, the business of consumers' co-operatives was included in the reports of the Economics Division only if the members were engaged for the most part in some agricultural occupation. For 1942 and later years, the "Merchandising" heading includes the business of all purchasing and consumers' co-operatives, whether rural or urban, and whether that business is in producers' goods or in consumers' goods. The figures given by the Economics Division, however, do not separate one from the other.

Difficulties of comparison:

It is difficult to find bases for the comparison of relative importance and relative rates of growth for co-operative and non-cooperative organization. Some of these difficulties may be pointed out.

First, co-operative data have been assembled in Canada for only a comparatively few years. Changes in these figures at times relate to increased coverage, the inclusion of more institutions.

Second, marketing involves a series of steps or turnovers different for each product, and co-operatives engage in different proportions of the total number of turnovers in the handling of different products. If we say, for example, that of all grain marketed in Saskatchewan in the crop year 1943-4, 42.8 per cent was handled by Saskatchewan Pool Elevators, we know pretty clearly the situation so far as the local assembly markets go; but we know very little about the importance of co-operatives in the marketing of wheat unless we know the proportions at each of the other stages of the marketing process as well — e.g. the terminal level and the export level. In the marketing of Canadian tobacco, one co-operative association records a turnover of millions of dollars. Yet it is only a collective bargaining agency. It displaces no private agency. To compare the turnover figures of this agency with a figure for the total wholesale value of the Canadian tobacco crop, for example, would suggest little as to the relative importance of co-operative enterprise in the marketing of Canadian tobacco.

Third, there is the question of comparing the business of purchasing or “merchandising” co-operatives with the sales of private enterprise in similar lines of activity. Some of the goods handled by merchandising co-operatives are sold at retail and some in wholesale quantities. Wholesale co-operative sales of gasoline, for example, may displace retail sales of gasoline by non-co-operative business. Figures for the sales of consumers’ co-operative stores are obtainable and can be compared with the sales of non-co-operative retail stores. But beyond that point the data for co-operative merchandising business involve transactions which may be of a wholesale nature or of a retail nature, or, in fact, of such a nature as to be considered to be production or processing, rather than merchandising at any level. It is extremely difficult to get bases of comparison to indicate the changing importance of purchasing co-operatives in the Canadian merchandising picture.

II. The Canadian Co-Operative Pattern

Canadian co-operative activity has always been more pronounced in the field of commerce ⁽²⁾ than in the field of services or of “production”. Within the commercial field, that is, having to do with the purchase and sale of goods, Canadian co-operatives have always had more to do with the sale of farm produce than with the purchase or sale of any other commodity. Their selling has always been more important than their buying: “marketing” more important than “merchandising”. The Economics Division divides the commodities handled by Canadian co-operatives into “produce” and “supplies”, the former chiefly farm produce marketed for members, and the latter, supplies and merchandise purchased for members. In 1943, 86 per cent of the dollar volume of commercial business of Canadian co-operatives involved the marketing of produce and 14 per cent involved the “merchandising” or purchasing of supplies and consumers’ goods.

The regional picture varies, however, as indicated by the following table.

⁽²⁾ The “marketing” and “merchandising” activities analyzed annually by the Economics Division of the Department of Agriculture, Ottawa, are the commercial activities of Canadian co-operatives. In the American classification given above the co-operative sales associations and the co-operative purchasing associations are the commercial associations.

TABLE I

Marketing of Produce, and Purchases of Supplies and Merchandise as Percentages of the Business of Commercial Co-operatives in Canada, year ending July 31, 1943.

	Marketing of Produce	Purchase of Supplies
P. E. I.	85	15
Nova Scotia.	49	51
New Brunswick.	63	37
Quebec.	75	25
Ontario.	86	14
Manitoba.	93	7
Saskatchewan.	87	13
Alberta.	90	10
British Columbia.	83	17
Canada.	86	14

For the Maritimes as a group the figures in 1943 were 60 per cent for marketing and 40 per cent for purchasing; for the Prairie Provinces, 89 for marketing and 11 for purchasing.

Proportions not only vary regionally in Canada, they have changed considerably over time in recent years. The purchasing of supplies and merchandise is an increasingly important part of the commercial business of Canadian co-operatives, as indicated in Table II. (See also Figure 1).

TABLE II

Marketing of Produce and Purchases of Supplies and Merchandise as Percentages of the Business of Canadian Co-operatives years ending July 31.

Year	Marketing of Produce	Purchases of Supplies
1932-3.	93	7
1933-4.	95	5
1934-5.	94	6
1935-6.	92	8
1936-7.	91	9
1937-8.	87	13
1938-9.	90	10
1939-40.	91	9
1940-1.	89	11
1941-2.	85	15
1942-3.	86	14
1943-4.	89	11

The dollar value of commercial business carried on by Canadian co-operatives has increased markedly in recent years. In 1943 those reporting to the Economics Division conducted \$353 million worth of business divided approximately \$295 million for produce sold and \$56 million for supplies and merchandise purchased. As mentioned above, the Economics Division estimates these figures to represent approximately 95 per cent of all co-operative commercial activity in Canada. Since these are incomplete figures, however, and since we are more concerned at this point with relative than with absolute amounts, the following table (Table III) is calculated in terms of index numbers. Table III indicates the estimated rates of growth of co-operative commercial business in Canada and Provinces. The base period 1935-9 was selected as representing the pre-war period and in an attempt to avoid comparison with a single year of the 1930's, any one of which might be regarded as extreme. Tables constructed on this base draw particular attention to the years since 1939 and facilitate comparisons over these later years.

TABLE III

Index Numbers of Dollar Value of Produce Sold and Supplies and Merchandise Purchased by
Co-operatives in Canada
(1935-39 = 100)

—	Canada	Mari- times	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1933.....	71.1	68.5	48.2	51.7	53.9	71.7	85.2	75.9
1934.....	83.7	68.4	48.4	53.6	70.9	108.0	91.1	83.4
1935.....	77.4	73.9	66.8	62.1	69.8	98.7	68.7	89.2
1936.....	97.1	90.2	95.6	75.6	63.9	108.2	109.3	99.1
1937.....	106.7	95.8	99.5	85.2	88.9	134.3	89.8	99.3
1938.....	95.2	115.6	122.6	100.2	150.8	51.2	110.6	103.5
1939.....	123.7	124.5	115.6	177.0	126.6	107.6	121.7	108.9
1940.....	145.0	116.6	135.1	174.9	130.4	173.9	118.8	110.9
1941.....	148.6	118.7	171.9	157.0	166.0	160.1	132.4	109.8
1942.....	157.7	172.2	289.8	236.3	213.7	108.1	121.0	163.0
1943.....	216.5	240.0	293.0	255.3	261.2	205.7	164.6	209.2
1944.....	316.5	292.9	356.4	288.0	476.7	357.5	271.7	246.5

The increase in co-operative activity has been much more pronounced in some provinces than in others, in the provinces of Manitoba, Saskatchewan, and Quebec in contrast with British Columbia, Ontario and Alberta.

Tables IV and V show the regional changes in co-operative marketing and co-operative purchasing, respectively. The percentage increase in the value of purchases has been much greater than the increase in the value of produce sold. ⁽³⁾ The indices show particularly the substantial increase in the purchasing activities of co-operative associations in the prairie provinces. If we ignore momentarily the 1944 index numbers of co-operative marketing data (Table IV) we can see a decided tendency for co-operative marketing in Saskatchewan and Alberta to lag behind that of other provinces in relative growth. Because of the tremendous increase in the 1944 data, which raised the Canadian index from 200 to 311 in a single year and which was chiefly associated with favourable crop conditions, the 1944 index numbers should not be considered as characteristic of the developments since 1939, developments which generally were much more gradual.

TABLE IV

Index Numbers of Dollar Value of Produce Sold by Co-operatives in Canada.
(1935-39 = 100)

Crop Year ending in	Canada	Mari- times	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1933.....	72.6	73.4	59.1	51.8	54.1	72.5	84.6	77.7
1934.....	87.6	73.1	60.2	51.9	71.6	111.8	91.9	87.3
1935.....	80.1	71.2	80.0	64.5	67.5	101.4	69.5	91.3
1936.....	98.6	95.3	115.8	72.9	61.9	109.5	108.3	102.5
1937.....	106.8	92.4	92.6	82.6	89.8	135.8	89.7	99.3
1938.....	91.4	108.8	108.7	93.9	153.8	46.6	111.6	101.5
1939.....	122.9	132.4	102.9	186.1	127.0	106.8	120.8	105.5
1940.....	145.7	115.6	135.3	183.3	130.0	174.3	115.8	108.9
1941.....	146.2	108.7	180.5	162.0	162.6	154.8	125.8	102.2
1942.....	145.6	162.7	272.3	249.3	211.5	98.4	110.6	163.1
1943.....	200.4	218.0	272.3	255.7	257.8	189.8	154.1	213.0
1944.....	311.4	267.3	321.2	285.8	483.8	351.6	263.3	246.0

⁽³⁾ It should be noted that some of the increase in co-operative purchasing, especially in Quebec, may be attributed to the progressively increasing coverage of the Economics Division, Marketing Service, Department of Agriculture, from whom the data were obtained.

TABLE V
Index Numbers of Dollar Value of Merchandise and Supplies Purchased by
Co-operatives in Canada
(1935-9=100)

Calendar Year	Canada	Mari- times	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1933.....	40.3	53.6	3.5	55.5	57.7	45.3	57.1	64.8
1934.....	44.0	74.1	7.5	40.0	96.5	49.3	36.6	76.9
1935.....	70.4	73.8	6.5	77.0	87.9	74.9	106.0	80.2
1936.....	90.1	95.4	103.4	86.6	67.8	92.3	68.0	92.8
1937.....	110.7	120.5	148.4	119.2	99.7	97.5	62.1	105.9
1938.....	112.4	100.0	139.0	107.8	116.3	99.9	110.8	111.8
1939.....	116.4	110.5	102.7	109.4	128.4	135.3	153.2	109.2
1940.....	142.6	129.0	105.3	110.5	203.5	187.7	239.2	127.0
1941.....	204.1	180.2	305.2	141.8	238.0	210.4	313.8	159.3
1942.....	265.7	267.6	318.7	209.5	293.2	349.5	347.5	179.5
1943.....	317.9	324.2	422.3	265.5	363.6	373.8	396.2	244.0

Percentage changes in the volume of co-operative business do not, of course, give any indication of the vast differences in the amounts of such business performed in the different provinces or regions in any one year. The importance of co-operative activity in the prairie provinces is well known. Annually from one-half to two-thirds of Canadian co-operative business is done in the prairie provinces. Saskatchewan alone accounts for amounts which fluctuate widely but which range from 20 to 40 per cent of the total, usually from 30 to 40 per cent. Table VI shows the regional distribution of Canadian co-operative commercial business—marketing and merchandising lumped together. (See Figure 2). (*)

TABLE VI
Percentage Distribution of Co-operative Business in Canada

—	Canada	Mari- times	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Inter- provin- cial
1933.....	100	3.3	5.3	9.3	6.2	30.0	22.8	6.4	16.7
1934.....	100	2.8	4.5	8.2	6.9	38.4	20.7	6.0	12.5
1935.....	100	3.1	6.4	10.0	7.1	37.0	16.3	6.6	13.5
1936.....	100	3.2	7.7	10.0	5.3	33.2	21.4	6.2	13.0
1937.....	100	3.1	7.3	10.2	6.8	37.4	16.0	5.6	13.6
1938.....	100	4.2	10.1	13.4	13.0	16.0	22.1	6.5	14.7
1939.....	100	3.5	7.3	18.3	8.4	25.8	18.7	5.3	12.7
1940.....	100	2.8	7.3	15.4	7.3	35.7	15.5	4.6	11.4
1941.....	100	2.8	9.1	13.5	9.1	32.0	16.9	4.5	12.1
1942.....	100	3.9	14.8	19.6	11.4	20.8	14.9	6.4	8.2
1943.....	100	3.9	10.9	15.4	10.2	28.9	14.8	6.1	9.8

Indices showing increases in the dollar volume of business done by Canadian co-operatives tell little about the competitive position or strength of the co-operative form of business organization. Some of the increase in dollar volume of business is related to increases in price levels over the past eight or ten years. Increases in the physical volume of co-operative business are not so great as in dollar volume. In terms of competitive positions, non-cooperative business activity has increased substantially over the past ten years along with co-operative activity. The problem is to find some measure of non-cooperative business activity with which to compare that of co-operatives.

(*) Figures 3, 4, 5, 6 indicate still further the regional pattern and the commodity pattern in Canadian co-operation.

III. Analysis of Co-Operative Marketing of Farm Produce

To get a picture of the relative rate of growth of co-operative marketing organizations, of co-operative agencies marketing farm produce, it would be best to have figures showing the business done by non-cooperative agencies marketing farm produce. For proper comparison these data should be available in totals and by regional and commodity groupings. Unfortunately comparative data are not available in just this form. Because of the varying number of turnovers involved in marketing different farm products and the general complexity of the marketing channels it is impossible to get figures measuring the marketing job for all agricultural produce or even for a single agricultural product. Compromise comparisons must therefore be made.

Among data which are available are estimates of cash income secured from the sale of farm produce, by years, regions and commodities. It is thought that some clues as to the relative rate of growth of co-operative marketing activity might be drawn from comparisons with these data. Cash income from the sale of any farm product is, of course, a measure of the marketing business of the local-assembly marketing agency concerned. It is, as it were, the inventory value of the product on a *cost* basis. Farmers' cash income from the sale of wheat, for example, is the inventory-at-cost for the local elevator and represents the dollar value of the wheat at its first turnover in the marketing system. For the second turnover the elevator company may, for example, sell to a miller or to an exporter, and the value of the second marketing turnover would be the original value (the cash-income value) plus the "mark-up" of the elevator company. This terminology is not common to the grain trade and instead of "mark-up" the term applied would be "handling charges". Transportation charges would also be added. The point is, however, that cash income figures are derived from the marketing process, they represent farm produce at a particular stage in that process, and by comparisons between co-operative marketing data and cash income data a reasonably clear picture of changes in the relative importance of co-operative marketing agencies may be secured. Such comparisons are made in the following pages.

These comparisons give rise to certain problems. The data, on which the indices for income are computed, have all been compiled on a calendar year basis ⁽⁵⁾, while the farm products statistics have been compiled ⁽⁶⁾ partly on a calendar, and partly on a crop year basis. It has been difficult, therefore, to match indices for the appropriate years. A question arises as to whether farm produce data which includes crop year data for the season 1943-44 should be matched with income data for the calendar year of 1943, or of 1944. In the comparison that follows, it has been decided to match the crop year 1943-44 to income data for the calendar year 1944; i.e. the farm produce data is thus matched to income data for the calendar year in which the crop year ends. This is primarily because grain and seed, which forms so large a part of total produce, has a crop year ending on July 31st. In addition, in the last few years, there has been a considerable carry-over of the grain crop, which means that marketings in the latter part of the crop year are fairly substantial. It is realized that an equally strong case could be made for the alternative procedure mentioned. The exact truth lies somewhere between the two extremes, neither being precisely accurate. It is felt that the course followed gives as reasonably true a comparison as can be obtained under the circumstances.

⁽⁵⁾ By the Dominion Bureau of Statistics, Agricultural Branch.

⁽⁶⁾ By the Economics Division, Marketing Service, Department of Agriculture.

Finally, a word may be said regarding the techniques used in computing cash income from the sale of farm products. (7)

"Payments made under the Wheat Acreage Reduction Act, the Prairie Farm Assistance Act, the Prairie Farm Income Act, and on wheat participation certificates of the 1940, 1941, and 1942 crops are not included under cash income from (the sale of) farm products.... Other payments by Dominion and Provincial Governments are included..."

One important type of government payment, which influences cash income, is the subsidies paid by the Agricultural Food Board, to the producers of dairy products. These subsidies were authorized by order-in-council on December 26, 1941, and have been paid, in varying amounts, on different dairy products, ever since. As a result, these payments will cause cash income for the last few years to rise slightly over what it otherwise might have been. In comparing co-operative marketing with cash income, this must be kept in mind. (8)

A. Comparison of Co-Operative Marketing and Cash Income Data

Table VII compares indices of dollar turnover of co-operative marketing agencies — co-operatives selling farm produce — with indices of cash income from the sale of farm produce. (See Figure 7).

TABLE VII

Indices of Dollar Volume of Produce marketed by Co-operatives compared with Indices of Cash Income from the Sale of Farm Produce for all Canada.
(1935-39 = 100)

	Produce Marketed	Cash Income
1933.....	72.6	63.5
1934.....	87.6	77.7
1935.....	80.1	81.9
1936.....	98.6	92.6
1937.....	106.8	103.4
1938.....	91.4	106.4
1939.....	122.9	115.7
1940.....	145.7	122.7
1941.....	146.2	146.4
1942.....	145.6	176.3
1943.....	200.4	224.6
1944.....	311.4	280.5

Table VII suggests something of the relative growth of co-operative marketing activity in comparison with the pre-war years. By 1943, co-operative marketing of farm produce had doubled in dollar volume in Canada since the pre-war years. Meanwhile cash income from the sale of farm produce had more than doubled. A fair inference appears to be that despite its pronounced expansion in recent years, co-operative enterprise in 1942 and 1943 was performing a smaller proportion of the marketing activities concerned with Cana-

(7) Bulletin issued Feb. 23, 1945, by the Agricultural Branch, Dominion Bureau of Statistics, estimating farm cash income for the calendar years 1942 to 1944.

(8) These payments will affect only the analysis involving cash income from the sale of *all* farm products. They do not affect the study of co-operative marketing of dairy products which uses factory value of dairy products rather than cash income from the sale of dairy products, and hence avoids this problem.

dian farm produce than it was in the late 1930's. By 1944 co-operative marketing activity had more than trebled as compared with the pre-war years. Cash incomes lagged behind somewhat in 1944.

Further comparison is made possible by the calculation of the relative rates of growth of co-operative marketing totals and of cash income from the sale of farm products. ⁽⁹⁾ Calculations show that from 1933 to 1944, inclusive, co-operative marketing dollar volume for all Canada increased by an average rate of 11.4 per cent per year, while cash income from the sale of farm products increased by 12.1 per cent per year. Percentage increases are much sharper if only the more recent years are considered. From 1939 to 1944 inclusive co-operative marketing totals increased by 17.4 per cent and cash incomes by 20.2 per cent per year. The cash income figure has increased more rapidly than co-operative marketing in both periods of time.

Again, however, the regional picture is important. Table VIII gives comparisons parallel to those in Table VII for all Canada and for provincial and regional groupings.

Table VIII shows that in some parts of the Dominion, co-operatives have more than held their own in relation to farmers' marketings. Particularly has that been so in Manitoba, and to a lesser degree in Ontario, Quebec and the Maritimes. In British Columbia the indices in 1943 and in 1944 were approximately equal, suggesting an equal expansion of co-operative marketing activity and of cash income from the sale of farm products since the pre-war years. In Saskatchewan and Alberta the expansion in co-operative marketing activity lagged far behind the expansion in cash farm income. Because of the relative quantitative importance of the co-operative activity of Saskatchewan and Alberta, the tendency for co-operative activity to lag in these provinces creates a false impression about co-operative development in other provinces, if one considers only the totals for all provinces together.

⁽⁹⁾ These calculations were made by fitting the curve $\log y = a + bx$ to the given data by the least squares technique and thus setting $b = (1+r)^x$ where "r" is the average annual rate of increase.

TABLE VIII

Changes in the Dollar Volume of Farm Produce Marketed by Co-operatives
Compared with Changes in the Cash Income from the Sale of Farm Produce.

(Index 1935-39=100)

	CANADA		MARITIMES		QUEBEC		ONTARIO		MANITOBA		SASKATCHEWAN		ALBERTA		BRITISH COLUMBIA	
	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes	Produce Mktd.	Incomes
1933.....	72.6	63.5	73.4	72.7	59.1	57.7	51.8	65.2	54.1	56.1	72.5	67.3	84.6	60.6	77.7	71.3
1934.....	87.6	77.7	73.1	82.9	60.2	73.0	51.9	73.3	71.6	75.2	111.8	82.1	91.9	83.6	87.3	81.2
1935.....	80.1	81.9	71.2	84.4	80.0	78.1	64.5	78.1	67.5	62.7	101.4	94.9	69.5	86.8	91.3	83.9
1936.....	98.6	92.6	95.3	95.2	115.8	87.2	72.9	93.1	61.9	81.9	109.5	110.5	108.3	83.2	102.5	90.0
1937.....	106.8	103.4	92.4	112.1	92.6	103.4	82.6	108.8	89.8	130.0	135.8	74.0	89.7	107.2	99.3	105.4
1938.....	91.4	106.4	108.8	107.3	108.7	108.6	93.9	110.3	153.8	113.0	46.6	82.0	111.6	117.5	101.5	112.3
1939.....	122.9	115.7	132.4	100.6	102.9	122.7	186.1	109.7	127.0	112.3	106.8	138.8	120.8	105.4	105.5	108.1
1940.....	145.7	122.7	115.6	126.7	135.3	146.0	183.3	117.5	130.0	112.9	174.3	132.4	115.8	111.6	108.9	110.3
1941.....	146.2	146.4	108.7	152.4	180.5	175.2	162.0	144.3	162.6	141.7	154.8	142.2	125.8	135.4	102.2	140.2
1942.....	145.6	176.3	162.7	183.8	272.3	210.8	249.3	179.3	211.5	179.5	98.4	171.9	110.6	148.2	163.1	170.9
1943.....	200.4	224.6	218.0	221.6	272.3	240.9	255.7	193.2	257.8	253.1	189.8	287.5	154.1	193.6	213.0	212.6
1944.....	312.6	280.5	267.3	230.5	321.2	262.3	289.6	206.8	490.5	292.4	351.6	441.9	263.3	275.5	246.0	252.1

Regional trends also may be seen more clearly if absolute figures are translated into terms of average annual rates of change. This is done in Table IX.

TABLE IX

Average Annual Rates of Growth of Co-operative Farm Produce Marketings and of Cash Income from the Sale of Farm Produce by Regions.
1933-43.

Province or Region	Produce Marketed	Cash Income
Canada.....	9.3%	11.5%
Maritimes.....	10.3	10.5
Quebec.....	16.2	14.6
Ontario.....	16.9	10.9
Manitoba.....	16.3	13.5
Saskatchewan.....	5.9	11.8
Alberta.....	5.6	9.3
British Columbia.....	7.6	10.0

The calculations compared in Table IX make it possible to picture the comparative rates of growth in co-operative marketing activity and of farmers' cash returns from the sale of farm produce throughout the years 1933 to 1943 for the different regions. Rates of growth of co-operative marketing business exceeded rates of growth of cash income for Quebec, Ontario and Manitoba; fell short of cash-income rates of growth in Saskatchewan, Alberta and British Columbia; and the rates for co-operative activity and for cash income were approximately the same for the Maritimes.

Figures for total marketings are, of course, made up of figures for the marketings of specific products or groups of products. The detailed data for these commodity groups will be analyzed so far as they are available. Here it is necessary to call attention to one major group "grain and seed" and to show how it affects the total. Grain and seed constitute such an important part of all co-operative marketings that developments in the co-operative marketing of these products might well create a false impression as to what was happening in other lines of co-operative endeavour.

Table X indicates the relative importance of grain and seed marketings in Canadian co-operative business in recent years.

TABLE X

Grain and Seed as a Percentage of Total Produce Marketings of Canadian Co-operatives, 1933-43.

1933.....	69.0
1934.....	73.5
1935.....	66.4
1936.....	67.4
1937.....	69.6
1938.....	60.1
1939.....	61.5
1940.....	66.3
1941.....	63.7
1942.....	40.6
1943.....	45.5
1944.....	57.6

Co-operative activity in the marketing of grain and seed has not increased as rapidly as it has in the marketing of other farm products. Because this is so and because of the great relative importance of co-operative activity relating to grain and seed, the indices for co-operative marketing *excepting* grain and seed are quite different from the indices *including* grain and seed. In 1943 Canadian co-operatives marketed twice as much farm produce in dollar terms as they had in each of the pre-war years, 1935-39. Excluding grain and seed, however, the co-operatives trebled their marketings. Table XI below indicates the latter condition (See Figure 8).

TABLE XI

Indices of Co-operative Marketing, less Grain and Seed, and of Cash Income from the sale of Farm Produce, less Grain and Seed
(1935-39=100)

	Produce Marketed	Cash Income
1933.....	64.0	56.2
1934.....	66.2	79.2
1935.....	76.7	76.7
1936.....	91.7	95.0
1937.....	92.5	100.9
1938.....	104.0	109.3
1939.....	135.0	118.0
1940.....	140.3	112.2
1941.....	151.1	144.9
1942.....	246.7	209.5
1943.....	311.5	242.0
1944.....	378.9	273.7

Table XI also indicates that, excluding grain and seed, Canadian marketing co-operatives expanded more rapidly in recent years than did cash income from the sale of farm produce (excluding grain and seed). This is as would be expected. Co-operative activity in the marketing of grains approached a peak in the late 1920's when the Pools were handling approximately one-half of all Canadian wheat and substantial proportions of all coarse grains. Some consideration will be given to grain and seed later, but at this point it is important to notice how a relatively stable co-operative position in the marketing of these products tends to give a false impression regarding the development of co-operative marketing in other products. Apart from grain and seed, Canadian co-operatives have apparently in recent years expanded their position in relation to non-cooperative marketing agencies.

Again the comparative rates of growth can be shown. From 1933 to 1943, co-operative marketing in Canada, *less* grain and seed, increased by an average annual rate of 16.2 per cent, while cash income from the sale of farm products, less grain and seed, increased by 11.8 per cent. From 1939 to 1943 the corresponding rates were 25.1 per cent for co-operative marketing and 18.9 per cent for cash income. Co-operative marketing data *less* grain and seeds have made considerably greater proportional expansion than with grain and seed included.

Analysis of Commodity Groups:

From available data we are able to compare co-operative marketings and cash income on a commodity basis. Indices for these data are presented in Table XII for six of the main commodity groups in which co-operatives are active. ⁽¹⁰⁾ (See Figures 9, 10, 11, 12.)

⁽¹⁰⁾ These groups accounted for 98.4 per cent of the dollar volume of Canadian co-operative marketing in 1943-4.

TABLE XII

Indices of Dollar Value of Co-operative Marketings and of
Cash Income from the Sale of Main Groups of Farm Products:
All Canada.

(1935-9 = 100)

	Dairy Products		Fruit & Vegetables		Grains & Seeds		Livestock		Poultry & Eggs		Tobacco	
	Produce Mktd.	Cash Income	Produce Mktd.	Cash Income	Produce Mktd.	Cash Income	Produce Mktd.	Cash Income	Produce Mktd.	Cash Income	Produce Mktd.	Cash Income
1933.....	67.4	76.5	72.4	69.0	78.4	81.3	57.2	50.5	55.4	66.6	1.9	.....
1934.....	77.8	81.7	81.5	83.7	99.3	74.3	99.8	67.2	73.8	78.9	2.4	50.3
1935.....	100.6	85.9	87.6	93.8	85.2	94.4	106.7	78.4	75.3	81.7	61.7	55.6
1936.....	88.9	94.9	103.7	92.9	102.4	87.0	87.3	93.4	100.6	90.6	79.9	83.8
1937.....	103.5	103.4	98.8	106.0	114.6	109.7	107.5	117.5	96.4	91.5	69.3	72.3
1938.....	105.7	109.7	99.8	106.3	118.0	99.6	91.9	99.0	131.7	115.5	139.2	131.2
1939.....	101.2	106.6	110.0	100.9	116.4	110.3	106.7	111.7	95.9	120.5	150.0	156.2
1940.....	128.7	117.5	122.2	131.2	148.7	148.1	144.2	147.8	137.7	129.9	163.0	149.9
1941.....	210.5	149.3	112.8	125.6	143.7	150.3	229.6	193.4	220.4	149.3	100.2	85.4
1942.....	237.5	180.2	186.1	158.2	91.2	97.0	357.0	224.6	334.8	226.3	191.3	149.1
1943.....	286.8	181.1	235.2	195.3	140.6	183.2	467.2	270.0	469.3	285.1	170.7	166.0
1944.....	.....	188.5	254.3	227.8	276.8	297.7	.....	310.3	.....	301.3	162.8	151.4

This table shows the very considerable comparative lag in the expansion of co-operative marketing of grain and seed. It shows that in the other substantial lines of co-operative marketing, the rate of co-operative expansion in recent years has surpassed the rate of expansion in the farmer's cash receipts from the sale of the respective products. This is particularly noticeable in dairy products and in livestock, but it is also true of fruit and vegetables and poultry. In tobacco the indices diverge only slightly in later years.

The same trends in the data can be emphasized by an examination of average annual rates of growth of marketing volume and of cash income in terms of the various commodity groups. ⁽¹¹⁾ The comparisons are set down in Table XIII.

TABLE XIII

Average Annual Percentage Rates of Growth of Co-operative Marketing and of Cash Income from the Sale of Farm Products, 1933-44

Commodity Groups	Produce Marketed	Cash Income
Dairy Products (a).....	11.6	8.6
Fruit and Vegetables.....	10.1	8.8
Grain and Seeds.....	7.6	9.2
Livestock (a).....	18.2	15.2
Poultry and Eggs (a).....	18.2	13.4
Tobacco.....	20.6	9.3
Honey.....	16.6	4.6
Maple Sugar (b).....	13.4	11.4
Wool.....	13.0	9.6
Fur.....	-7.9	3.2
All Products.....	9.3	11.5

(a) 1933-43

(b) Quebec only.

Of the groups of commodities listed in Table XIII, including both the major and minor groups of co-operative marketing activity, all except two or three show rates of increase of co-operative activity in excess of the rates of increase of the corresponding cash income. The rates of growth listed in Table XIII, of course, cover the entire period 1933-43 whereas the indices of Table XII call particular attention to the years since 1939 since the indices are based on the period 1935-9 (1935-9=100). In dairy products, livestock, fruits and vegetables, poultry and eggs, tobacco, honey, maple sugar and wool, co-operative marketing rates of growth over the eleven or twelve year period exceeded the rate of growth of cash income. In fur marketing, co-operative marketings showed a decline over this period, or a negative rate of increase of 7.9 per cent. Co-operative marketing of grain and seed lagged somewhat behind cash income from grain and seed.

A comparison of rates of growth of co-operative business and of cash income for more recent years only, shows much more striking rates and much more striking contrasts between the corresponding rates. Table XIV presents such a comparison by commodity groups for all Canada for the years 1939 to 1944.

⁽¹¹⁾ The rate of growth calculations that follow have been made by fitting the curve $\log y = a + bx$ to the given data by the "semi-averages" technique which gives a very close approximation to the result obtained by means of least squares, as explained in foot-note ⁽⁶⁾ above.

TABLE XIV

Average Annual Percentage Rates of Growth of Co-operative Marketing and of Cash Income from the Sale of Farm Products, 1939-1944.

Commodity Groups	Produce Marketed	Cash Income
Dairy Products (a).....	36.1	16.6
Fruit and Vegetables.....	24.8	17.4
Grain and Seeds.....	4.1	9.9
Livestock (a).....	48.3	22.6
Poultry and Eggs (a).....	50.5	29.6
Tobacco.....	11.5	7.2
Honey.....	10.7	10.1
Maple sugar (a).....	26.5	54.7
Wool.....	25.8	19.8
Fur.....	32.7	17.5
All Products.....	17.4	20.2

(a) Data for these products are on a calendar year basis and the comparison is for the calendar years 1939 to 1943. Other comparisons are for the crop years ending in the years 1939 to 1944.

The rates of growth recorded in this table represent wartime expansion. With only one major exception and one or two minor exceptions the rate of expansion of co-operative marketing activity substantially surpassed the rate of expansion of the corresponding cash income. The calculations show co-operative business lagging substantially in grain and seeds and in maple sugar—the latter, of course, a comparatively trifling product—and almost equal rates of growth for co-operative business and cash income from honey, also a minor product. For all other groups the co-operative rate of expansion is well above the cash income rate. Because of the preponderance of data for grain and seed, however, the rates for all products show cash income increasing at 20.2 per cent while co-operative marketing increased at the lower rate of 17.4 per cent.

Commodity Groups by Regions:

Dominion trends by commodity groups may represent an average of divergent regional trends. To establish the degree of regional divergence it is necessary so far as possible to make comparisons and calculations on a regional basis. There follows a comparison of indices of co-operative marketing business and of cash income from the sale of respective farm produce by provinces or regions.

1. *Dairy Products.* Table XV presents the regional comparison for dairy products.

TABLE XV

Dairy Products : Indices of Dollar Volume of Co-operative Marketing and of Cash Income from the Sale of Dairy Products.

(Indices 1935-39 = 100)

Calendar Years	CANADA		MARITIMES		QUEBEC		ONTARIO		MANITOBA		SASKATCHEWAN		ALBERTA		BRITISH COLUMBIA	
	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income
1933.....	67.4	76.5	58.2	86.5	64.4	74.7	66.6	76.2	95.1	70.9	37.1	87.6	63.5	76.2	77.5	74.9
1934.....	77.8	81.7	64.1	88.7	93.0	80.7	75.7	79.4	108.5	76.4	60.2	94.8	69.9	82.9	78.1	91.3
1935.....	100.6	85.9	82.4	85.5	126.9	84.1	86.9	85.9	102.1	81.3	70.8	91.1	72.6	80.3	101.2	93.0
1936.....	88.9	94.9	100.9	93.4	41.8	93.9	98.5	97.0	70.1	91.2	79.7	96.2	103.5	88.4	102.0	95.7
1937.....	103.5	103.4	127.1	102.7	95.6	104.3	117.2	103.9	85.2	104.5	117.6	103.5	96.4	102.4	102.8	94.1
1938.....	105.7	109.7	127.1	115.9	117.1	109.3	115.9	108.5	124.0	114.2	115.1	103.7	111.6	118.3	99.3	106.2
1939.....	101.2	106.6	111.5	102.5	118.4	108.4	81.5	104.7	118.5	108.8	117.9	105.5	136.0	110.5	95.6	111.0
1940.....	128.7	117.5	128.1	111.3	126.5	113.4	124.0	118.1	151.7	125.6	152.8	129.0	138.6	117.6	110.5	119.1
1941.....	210.5	149.3	180.1	150.7	163.8	148.8	197.9	139.9	181.1	170.5	322.7	190.3	200.0	168.3	129.4	140.8
1942.....	237.5	180.2	227.9	176.2	343.9	185.3	180.9	169.7	260.0	193.3	423.0	225.0	312.6	199.7	155.6	161.6
1943.....	286.8	181.1	283.2	197.7	394.2	185.5	291.6	162.9	320.0	200.7	515.8	251.6	333.6	209.6	185.8	167.4
1944.....	.....	188.5	.....	203.8	.....	198.5	.....	166.7	.....	197.4	.....	256.7	.....	218.1	.....	189.9

Table XV indicates that in so far as dairy products are concerned, the regional picture does not diverge widely from the all-Canada picture. In every province or region the tendency is apparent for co-operative business to increase more rapidly than cash income in recent years as is true of the Dominion total. Differences in the degree to which this is true exist from province to province, but not in clear-cut fashion. Quebec, Ontario, and Saskatchewan show the most pronounced excess of co-operative expansion over cash income expansion with the Maritimes, Alberta and British Columbia probably the least.

2. *Fruits, Vegetables and Potatoes.* Table XVI indicates quite an irregular comparative trend in the Maritimes and Quebec and a fairly clear-cut excess of co-operative growth over cash-income growth in Ontario and British Columbia. Business in fruits and vegetables grown in the prairie provinces is ignored because of trifling co-operative activities in this field.

TABLE XVI

Fruit, Vegetables and Potatoes : Indices of Dollar Volume of Co-operative
Business and of Cash Income from the Sale of Fruits, Vegetables and Potatoes.

(Index : 1935-9 = 100)

Crop Year ending March	Canada		Maritimes		Quebec		Ontario		British Columbia	
	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income
1933.....	72.4	69.0	87.7	56.0	50.7	70.7	.....	73.3	.....	75.6
1934.....	81.5	83.7	99.3	85.9	54.4	78.9	37.8	82.4	100.0	88.1
1935.....	87.6	93.8	84.9	96.0	74.0	89.7	52.8	93.7	104.2	95.8
1936.....	103.7	92.9	105.6	89.8	142.6	90.9	66.1	93.9	94.7	98.1
1937.....	98.8	106.0	73.0	104.0	73.6	115.4	105.7	109.4	94.8	93.7
1938.....	99.8	106.3	76.7	107.1	118.9	105.9	132.6	103.1	98.4	106.8
1939.....	110.0	100.9	159.8	103.1	91.0	98.0	142.9	99.9	107.9	105.6
1940.....	122.2	131.2	142.0	110.0	64.9	145.7	156.6	144.7	118.3	117.7
1941.....	112.8	125.6	87.4	100.5	114.3	143.6	154.2	140.8	92.8	108.4
1942.....	186.1	158.2	129.9	112.9	162.0	159.2	234.9	204.4	144.9	127.2
1943.....	235.1	195.3	167.5	160.4	181.8	177.1	291.3	233.4	202.9	186.5
1944.....	254.3	227.8	247.9	178.6	146.7	174.7	309.9	262.8	262.8	226.5

3. *Grain and Seeds.* Table XVII presents the comparison for grain and seeds.

TABLE XVII

Grain and Seeds : Indices of Dollar Volume of Co-operative
Marketing and of Cash Income from the Sale of Grain and Seeds.

(Indices : 1935-9 = 100)

Crop Year ending July 31	Canada		Quebec		Ontario		Manitoba		Saskatchewan		Alberta		British Columbia	
	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income
1933.....	78.4	81.3	23.4	71.1	16.7	62.8	45.9	57.8	75.4	99.8	85.5	78.3	84.9	35.0
1934.....	99.3	74.3	52.6	61.9	27.5	68.4	67.3	58.3	116.7	87.8	97.2	69.2	284.9	35.5
1935.....	85.2	94.4	35.8	88.3	69.7	79.0	59.0	86.7	103.7	101.6	62.2	94.2	138.1	47.0
1936.....	102.4	87.0	50.3	89.4	120.6	83.8	54.4	45.9	112.4	110.4	111.5	81.1	146.8	73.4
1937.....	114.6	109.7	102.9	103.4	127.9	98.2	95.1	88.8	137.8	141.1	88.0	87.9	115.9	146.1
1938.....	118.0	99.6	147.4	120.4	101.5	138.0	162.9	176.5	37.6	42.4	112.0	113.6	38.1	164.4
1939.....	116.4	110.3	161.7	98.5	80.3	101.1	128.6	102.1	108.6	104.5	122.3	123.2	61.1	69.2
1940.....	148.7	148.1	307.1	101.9	91.4	99.2	127.1	114.4	182.0	205.9	111.8	115.6	456.4	132.3
1941.....	143.7	150.3	521.4	84.1	93.2	90.0	156.2	122.3	154.5	198.0	116.8	130.5	.....	105.8
1942.....	91.2	97.0	396.9	109.7	251.1	135.1	188.0	118.8	74.7	108.7	68.5	64.0	1849.2	122.7
1943.....	140.6	183.2	396.9	137.6	240.7	192.5	208.1	173.3	159.9	251.7	68.6	116.9	1431.7	96.5
1944.....	276.8	297.7	461.6	166.6	248.1	259.4	459.1	269.2	312.9	429.3	176.4	190.7	5412.7	199.4

The comparisons presented in Table XVII for grain and seed show more regional diversity than are to be found in some other groups of commodities. For Canada as a whole, co-operative grain and seed business appears to have expanded in recent years slightly less rapidly than the cash income from the sale of grain and seeds. This general average, however, is based on wide differences in the various provinces. In Quebec, Manitoba and British Columbia, particularly the latter, co-operative expansion far exceeded expansion in cash income. In Ontario the comparison is inconclusive. In Saskatchewan and Alberta cash income from grain and seed expanded in recent years more rapidly than co-operative marketing of grain and seeds.

Because of the great importance of the co-operative marketing of prairie grains in the Canadian co-operative marketing picture, any additional information on the relative growth of such business is useful. Table XVIII provides relevant information on a bushel basis. In this table a comparison in such terms is drawn between the grain handlings of the three western pools and the United Grain Growers and the total annual deliveries from 1933 to 1944.

TABLE XVIII

Volume of grain delivered to three wheat pools and United Grain Growers compared with total volume delivered in each crop year 1933 to 1944, and percentage of total provincial deliveries reported by each Pool. (a)

Crop Year ending	DELIVERIES					
	To Co- opera- tives bushels	Total bushels (000 omitted)	Co-opera- tives as per cent of total %	Per cent of Provincial Deliveries claimed by each Pool		
				Alberta	Sask.	Man.
1933.....	182,677	470,725	38.80	.....	43.02	28.30
1934.....	122,642	327,293	37.47	26.57	43.51	26.90
1935.....	122,287	326,632	37.44	27.16	44.41	25.40
1936.....	123,188	321,616	38.30	.....	45.30	27.50
1937.....	103,502	266,139	38.89	.....	46.88	27.06
1938.....	75,935	229,756	33.05	27.70	.....	27.09
1939.....	159,726	411,407	38.82	.....	45.15	27.09
1940.....	222,186	548,231	40.52	.....	43.83	29.02
1941.....	217,797	517,221	42.10	26.90	39.64	33.84
1942.....	132,297	297,252	44.51	27.10	42.43	34.11
1943.....	215,714	494,736	43.60	28.74	39.71	33.24
1944.....	267,030	578,078	46.19	28.74	42.84	36.38

(a) Table prepared under the direction of W. F. Chown, Marketing Service, Economics Division, Department of Agriculture, Ottawa.

This table comprises two sets of calculations, one for the three provinces and the four co-operatives, and one for the pool in each province. The pool calculations are, as indicated, percentages claimed or calculated by the pools themselves. The over-all percentage is a calculation based on deliveries figures of the Dominion Bureau of Statistics. These data indicate that the prairie co-operatives have well maintained and somewhat improved their relative position in the grain-handling business since the pre-war years. Of the provincial pools, however, only that of Manitoba shows a pronounced tendency to increase its percentage of provincial grain.

This conclusion does not coincide fully with the indications of the comparisons made in Table XVII between co-operative grain and seed business and cash income from grain and seed. If we consolidate the data from that table for the three prairie provinces we get the following:

TABLE XIX

Grain and Seeds : Indices of Dollar Volume of Co-operative Marketing and of Cash Income from the Sale of Grain and Seeds for the Prairie Provinces.
(1935-9 = 100)

Crop Year ending in	Co-operative Marketing	Cash Income
1933.....	74.8	83.3
1934.....	103.6	75.0
1935.....	85.2	96.0
1936.....	104.4	87.0
1937.....	115.4	110.5
1938.....	79.2	95.1
1939.....	115.8	111.5
1940.....	151.2	153.4
1941.....	142.1	157.4
1942.....	87.7	92.8
1943.....	135.7	183.9
1944.....	286.5	305.4

The implication of the indices in this table would clearly be that co-operatives in the prairie provinces had not quite maintained the relative position in the grain and seed business which they had held in the years 1935 to 1939. True, Tables XVII and XIX include such seed crops as alfalfa seed, not counted in, in Table XVIII, but such a discrepancy is negligible. The data for physical deliveries of grain and seed in the prairies do not quite coincide with data for cash-deliveries and cash-income. The physical-deliveries data must in this case be regarded as more significant than the dollar value data; but the margin is slight. If co-operatives handling grain and seed had either increased or decreased their share of the grain-handling business substantially, the evidence would have been more conclusive. It may be inferred that they have done neither.

The Maritimes and Ontario were the only region in which the rate of increase in co-operative marketing of livestock did not exceed that of cash income (See Table XX). The remainder of the areas were in line with the Dominion total. Co-operative expansion exceeded cash income by very pronounced amounts in some areas, particularly in Manitoba, Saskatchewan, Alberta and British Columbia. In the latter two provinces the co-operative indices exceeded 1000 in 1943 while cash income indices approximated 300.

With the Dominion total of co-operative poultry business expanding more rapidly in recent years than cash income from poultry and eggs, most provincial figures fall reasonably well in line with the Dominion average. Two notable exceptions, however, are found in the prairie provinces, the exceptions extending in opposite directions. In Saskatchewan the co-operative data lagged well behind those for cash income — thus providing with the Maritimes the only regional exceptions of that sort. In Alberta, on the other hand, co-operative data surpassed cash income data, but surpassed it by extreme amounts with indices running into the thousands compared with cash indices which do not exceed a few hundred. (See Table XXI).

4. *Livestock.* Table XX presents the comparison for Livestock.

TABLE XX

Livestock : Indices of Dollar Volume of Co-operative
Marketing and of Cash Income from the Sale of Livestock.

(Indices : 1935-39 = 100)

Calendar Year	CANADA		MARITIMES		QUEBEC		ONTARIO		MANITOBA		SASKATCHEWAN		ALBERTA		BRITISH COLUMBIA	
	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income
1933.....	57.2	50.5	28.3	59.6	62.4	42.2	64.4	58.5	76.0	41.6	64.5	41.2	41.3	43.9	89.0	73.6
1934.....	99.8	67.2	43.8	71.2	64.9	59.7	77.0	68.7	96.0	61.1	77.9	66.6	95.2	70.5	86.7	78.0
1935.....	106.7	78.4	53.2	85.1	81.3	70.2	84.6	74.3	87.5	75.5	77.9	88.2	88.1	86.7	191.5	88.0
1936.....	87.3	93.4	74.3	93.0	111.5	79.6	89.2	93.6	39.7	79.9	121.2	111.0	101.4	97.6	20.7	97.4
1937.....	107.5	117.5	113.1	108.8	87.6	113.5	107.5	110.6	124.0	107.1	127.6	163.2	101.0	114.9	39.4	107.2
1938.....	91.9	99.0	118.8	102.0	127.0	109.0	106.8	107.2	107.1	108.7	79.2	57.6	89.1	93.6	159.7	101.7
1939.....	106.7	111.7	140.4	111.1	92.7	127.7	111.8	114.3	141.4	128.7	94.2	80.1	120.4	107.3	88.3	106.1
1940.....	144.2	147.8	137.8	250.4	120.8	176.7	127.8	136.3	206.0	160.9	155.6	131.1	173.8	142.8	.....	137.6
1941.....	229.6	193.4	170.0	334.3	198.1	215.3	118.8	170.7	368.4	176.6	313.2	184.8	475.0	210.9	427.0	267.8
1942.....	357.0	224.6	257.1	293.5	230.5	224.0	168.0	188.3	558.8	275.6	477.4	256.8	917.9	254.0	735.5	246.3
1943.....	467.2	270.0	.....	338.0	302.2	276.7	191.3	199.8	730.0	347.0	761.2	383.6	1146.8	311.6	1038.3	279.5
1944.....	.....	310.3	.....	352.4	.....	286.1	.....	205.1	.....	381.5	.....	.....	.....	398.7	.....	293.6

TABLE XXI

Poultry and Eggs : Indices of Dollar Volume of Co-operative Marketing and of Cash Income from the Sale of Poultry and Eggs.

(Indices : 1935-9 = 100)

Calendar Year	CANADA		MARITIMES		QUEBEC		ONTARIO		MANITOBA		SASKATCHEWAN		ALBERTA		BRITISH COLUMBIA	
	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income	Mktg.	Income
1933.....	55.4	66.6	86.0	71.8	38.0	48.5	16.2	75.9	94.6	60.2	89.8	58.3	50.2	58.6	.....	57.9
1934.....	73.8	78.9	91.0	75.2	23.0	57.9	33.3	89.5	96.6	65.9	87.8	76.2	115.9	71.1	.....	72.4
1935.....	75.3	81.7	98.9	86.6	47.9	58.0	23.8	87.5	77.6	78.3	99.6	86.8	94.0	82.9	.....	75.0
1936.....	100.6	90.6	114.8	90.2	78.0	67.1	125.0	99.3	104.4	81.7	102.9	81.4	121.1	84.1	.....	96.7
1937.....	96.4	91.5	104.2	83.7	98.1	70.1	121.8	99.4	95.6	82.2	95.3	79.1	.....	95.7	.....	97.2
1938.....	131.7	115.5	125.0	120.2	89.1	146.8	143.2	105.7	110.3	125.4	99.0	117.3	.....	114.3	.....	116.9
1939.....	95.9	120.5	56.7	119.4	193.0	158.1	85.8	108.1	112.1	132.3	102.8	135.4	101.8	122.9	119.8	114.1
1940.....	137.7	129.9	80.9	140.9	206.3	178.3	89.0	116.9	137.0	133.5	101.5	140.9	119.8	136.4	123.9	113.5
1941.....	220.4	149.3	111.9	167.4	221.5	188.9	182.1	118.1	247.4	191.0	113.8	214.8	658.7	179.2	189.5	129.3
1942.....	334.8	226.3	173.2	231.2	292.0	256.9	173.3	181.8	372.6	307.8	176.3	364.0	980.4	284.8	367.1	168.6
1943.....	469.3	285.1	123.4	317.4	504.1	303.1	329.4	231.4	549.1	359.6	241.4	457.5	211.2	365.6	556.7	219.9
1944.....	.....	301.3	.....	357.1	.....	351.4	.....	224.9	.....	367.5	.....	557.6	.....	397.8	.....	216.4

B. Proportion of Agricultural Marketing performed by Co-Operatives.

Perhaps the central question set for this analysis is this: Are co-operatives increasing their proportion of business in lines of activity open to them? The rapid absolute expansion of co-operative business is a readily observed fact. But non-cooperative business has also expanded rapidly, particularly in terms of dollar volume of turn-over. The question of relative rates of growth is the important one.

Should co-operative expansion be found to be relatively great, a further question is, how far such relative growth may be attributed to tax structures. The latter question cannot be answered by means of the present study.

The analysis so far has provided no categorical answer to the main question, though it has presented some probabilities. What possibility is there of comparing co-operative marketing figures with total marketing figure, product by product, or province by province? If this could be done, the main question could more definitely be answered.

As previously pointed out the chief difficulty in the way of such a comparison relates to the question of turnover. Products which the farmer sells for \$100 may retail for \$200, more or less, but may have involved marketing transactions of five hundred or more dollars because of changing hands a number of times in the marketing process. We have data indicating the amount of business done by co-operatives in the marketing of livestock, for example; but we have no precise data indicating how much business in dollar terms is involved in the total marketing process for Canadian livestock. The following rough calculations, however, suggest something of the relationships involved.

TABLE XXII

Data Illustrating Marketing Totals in Canadian Livestock for 1941.

Value of product of slaughtering and meat packing industry.....	\$ 296,000,000
Exported — approximately one-quarter.....	74,000,000
Sold in Canada.....	222,000,000
Retail Mark-up, one-third.....	74,000,000
Retail Sales.....	296,000,000
Farm Sales.....	245,000,000
Packinghouse Sales.....	296,000,000
Dollar Volume of domestic livestock business.....	\$ 837,000,000
Co-operative marketing amount.....	40,000,000
Co-operative per cent of total—5%	

The livestock picture is somewhat complicated by the export item, but roughly the condition is this: the farmer sells for \$100; the packer sells for \$120 (20% mark-up) the retailer sells for \$160 (33.3% mark-up). This ignores transportation costs to which the retailer would add his mark-up. At a minimum, the \$100 farm sale of livestock has created \$380 of marketing business in three turnovers. Of the estimated domestic marketing figure for livestock for 1941, co-operatives accounted for 5 per cent, whereas in relating the co-operative figure to livestock marketing at a single level a figure of 10-12 per cent would be obtained (See Table XXIV below). The lower figure is, of course, the significant figure.

Because of the difficulty and uncertainty of calculations to determine total marketing volume from year to year for each of many commodities, another basis of comparison must be considered. If the cash value of a given product could be secured at a particular level of the marketing process and compared with the co-operative figure at the same level, a comparison would be valid. If, for example, we knew the value at local assembly points of all livestock marketed in Canada within a particular year, and if we knew the value of co-operative livestock turnover similarly at local assembly points, we could then determine the proportion of local-assembly activities performed by co-operatives in the livestock field. Also, any changes in this proportion from year to year could be observed and would be significant. Marketing at the terminal level, or of stockers and feeders, or at any other stage would be outside that particular picture, but the comparison at local-assembly level would be valid so far as it went.

In fact, data available permit comparisons such as those suggested, provided the limitations are carefully indicated in each case. Cash income figures from the sale of a farm product are based on local prices, and data on co-operative marketing of farm produce, as assembled by the Economics Division, are also essentially related to local prices. Exceptions to this apparent comparability will be noted in each case as the data are presented. One general statement can be made, that where co-operatives handle the same product at more than one level of marketing, the Economics Division considers the data to be duplicate data, and, so far as possible, reduces the total to eliminate the duplication. Remaining figures, therefore, would represent marketing turnover at a single level of the process.

Table XXIII shows the percentage relationship between yearly data for co-operative marketing and the cash income from the sale of farm produce.

TABLE XXIII

Dollar Value of Co-operative Marketing as a Percentage of Cash Income from the Sale of Farm Products : all Canada.

	All Products	All Products Less Grain & Seeds
1933.....	26.9	13.3
1934.....	26.6	9.8
1935.....	23.0	11.7
1936.....	25.0	11.3
1937.....	24.3	10.7
1938.....	20.2	11.1
1939.....	25.0	13.4
1940.....	27.9	14.6
1941.....	23.5	12.2
1942.....	19.5	13.8
1943.....	21.0	15.1
1944.....	26.2	16.2

To the extent that co-operative sales data represent business transacted at the local-market level, Table XXIII could be taken to mean that from one-fifth to one-quarter of all Canadian farm produce is handled locally by co-operatives. There are some qualifications to be made to this inference, qualifications which must be made specifically for each commodity because they differ. Also, of course the relative importance of co-operative activity varies greatly from commodity to commodity, so that the average by itself is misleading. The table suggests, however, that co-operative marketing sales

in total have scarcely kept pace in recent years with the expansion of farmers' cash income. It also indicates that co-operative marketing is considerably less important in the marketing of farm produce other than grain and seed than in grain and seed themselves. In the group of farm products other than grain and seed, co-operative activity has considerably more than held its own in recent years, the percentage of co-operative business to cash income increasing from 11.3 per cent in 1936 to 16.2 in 1944.

Table XXIV relates co-operative marketing to cash income in specific commodity groups for all Canada.

TABLE XXIV

Dollar Value of Co-operative Marketing as a Percentage of Cash Income from Sale of Respective Commodities: All Canada.

Year	(1)	(2)	(3)	(4)	(5)	(6)
	Dairy Products (b)	Fruits Vegetables and Potatoes	Grain Seeds and Hay	Livestock	Poultry and Eggs	Tobacco
1933.....	10.1	20.3	49.4	12.0	6.3	4.0
1934.....	10.9	18.8	69.5	15.8	7.1	95.0
1935.....	13.5	18.0	45.1	14.4	7.0	84.7
1936.....	10.7	21.6	61.1	9.9	8.4	82.0
1937.....	11.5	18.0	54.3	9.7	7.9	90.1
1938.....	11.0	18.1	44.2	9.8	8.6	84.7
1939.....	10.9	21.0	54.8	10.0	6.0	91.3
1940.....	12.5	18.0	52.2	10.3	8.0	91.2
1941.....	16.1	17.3	49.7	12.3	11.1	103.9
1942.....	15.1	22.7	48.9	16.9	11.2	88.0
1943.....	18.1	23.3	39.9	18.4	12.4	92.0
1944.....	.....	21.6	48.4	.....	.....	.....

(a) Data for Dairy Products. Livestock Poultry and Eggs, and Tobacco are for Calendar years; for Fruits, Vegetables and Potatoes, and for Grain, Seeds and Hay, data are for crop years ending in the specified years.

(b) Instead of being related to cash income for this set of calculations, figures for co-operative marketing of dairy products are related to figures made up of the factory value of factory cheese, of creamery butter, and of concentrated milk, and the value of fluid milk at the plant, bottling and pasteurizing costs included.

Table XXIV provides an opportunity to study the differing relative importance of co-operative activity in the marketing of different groups of farm produce; also whether that relative importance has changed over recent years. Each group of commodities, at least the more important ones, warrants a separate comment.

1. *Dairy Products.* The data for dairy products give a close representation of the relative importance of co-operative activity in the assembly and processing of these commodities. The comparison of co-operative marketing with "cash income" ⁽¹²⁾ data in this case is at the level where milk and cream have been assembled and processed into cheese, butter, or concentrated milk, or bottled and pasteurized for distribution in the whole milk market. So far as these stages in the distribution of dairy products are concerned the percentages

⁽¹²⁾ Note (b) Table XXIV explains the basis for the determination of "cash income" in the case of dairy products. It is, in effect, a "factory" value figure.

given in table indicate the proportion of co-operative to total business. Beyond the comparison, of course, lie other stages, such as those of jobbers, wholesalers and retailers in the butter business, for example.

Within these limits, the data indicate that Canadian co-operatives have increased their proportion of the dairy-products business steadily and substantially since 1933. Between 1939 and 1943 they increased their share by three-fifths from 11.0 to 18.1 per cent. Later analysis of the regional picture will no doubt show variations in this trend in different parts of the country.

2. *Fruits, Vegetables and Potatoes.* This comparison again purports to indicate the co-operative share of the local stage of distribution, without reference to later stages in the process. The co-operative proportion is, however, exaggerated to some extent because of the fact that co-operative figures represent fruits and vegetables after they have passed through the local co-operative assembly units and consequently have had their value increased by varied amounts of grading, wrapping, packing and storing. Farmers' cash income from the sale of these products does not include such additional values. For any one year, therefore, co-operatives at the local level would handle a smaller proportion of Canadian fruits, vegetables and potatoes than the figures would indicate.

As for trend, however, the figures should be reliable. Some increase in the co-operative proportion of Canadian fruit and vegetable business at the local-assembly level is indicated, but not so pronounced an increase as in dairy products.

3. *Grain and Seeds.* Data here are reasonably indicative of the degree of co-operative activity at the local-assembly level—with a slight exaggeration due to inclusion of local handling charges in co-operative data. Notable here is the substantial co-operative percentage, well in keeping with the observed importance of co-operatives in the handling of Canadian grains and seeds.

In terms of trend there is nothing clear-cut except perhaps the failure of the co-operative proportion either to increase or decrease. This is in line with the inconclusiveness of the evidence presented in Tables XVII, XVIII and XIX above and in the discussions concerning them.

4. *Livestock.* Percentages shown here closely represent the proportion of the local-assembly business performed by co-operatives. Co-operative data include the business done by a single co-operative meat-packing plant, which business approximates three per cent of the total co-operative figure. Apart from this exception the co-operative data are related to the local-assembly level, the same as cash income.

Co-operatives appear to have increased their proportion of local-assembly livestock business, particularly in recent years. From 1939 to 1943 the indicated co-operative percentage increased by 84 per cent, from 10.0 to 18.4 per cent; i.e. nearly doubled.

5. *Poultry and Eggs.* Here again percentages are related to local assembly. Though somewhat more erratic than in the case of some other products, the tendency is upward. Between 1939 and 1943, the percentage is more than doubled. The 1939 figure, however, is below that of any other year in the late 1930's. Nevertheless, the 12.4 per cent figure of 1943 marks the highest point over the period after 1932.

6. *Tobacco.* Figures in column (6) show co-operative marketing data to be a very high percentage of the cash income from the sale of farm produce. The figure of 103.9 per cent for 1941 is a possible figure since co-operative handling of the product may be included at several stages of the marketing process but must be left out of consideration as due to some irregularities in the data. Co-operative tobacco agencies do have a volume of business totalling

practically the full farm value of Canadian tobacco. It must be kept in mind that the activity of these agencies of the collective bargaining type, that they do not "handle" the crop in any sense; they have no storage or processing facilities. Co-operative marketing tobacco agencies, then, may be considered additional marketing agencies, displacing no private traders and performing no functions formerly performed by private traders.

With approximately 90 per cent of Canadian tobacco dealt in by collective bargaining agencies since 1934 there has been no tendency for co-operative proportions to alter markedly in either direction since that time.

Summary:

Table II above has indicated marked differences in the development of co-operative activity from commodity to commodity. By 1933 or 1934 co-operative business represented widely different proportions of cash income from the sale of various farm products. Since those years co-operative activity has increased sharply in relation to cash income in the case of some farm commodities and has remained relatively unchanged in others. In dairy products, livestock, and poultry and eggs, substantial relative increases are evident in Table II. In fruits and vegetables, grain and seeds and in tobacco, changes have been erratic or insignificant. Co-operatives responded in such various ways under uniform tax treatment.

Regional analysis. Dominion totals conceal striking regional differences. In the following tables co-operative business is stated as a percentage of cash income from products for the different Canadian regions or provinces—so far as possible. The tables following, in other words, present the materials of Table XXIV on a regional basis.

Table XXV deals with dairy products.

TABLE XXV

Dairy Products : Co-operative Business as a Percentage of Cash Income from the sale of dairy products (a)

Calendar Year	Canada	Maritimes	Que.	Ont.	Man.	Sask.	Alta.	Prairies	B.C.
1933.....	10.1	10.6	7.8	5.0	10.2	3.7	17.7	15.5	48.4
1934.....	10.9	11.4	10.5	5.4	10.8	5.5	17.9	16.8	42.4
1935.....	13.5	15.2	13.7	5.7	9.5	6.7	19.2	12.1	54.0
1936.....	10.7	17.1	4.0	5.8	5.8	7.1	20.0	11.4	52.9
1937.....	11.5	19.6	8.3	6.4	6.2	9.8	20.0	12.4	54.1
1938.....	11.0	17.3	9.7	6.1	8.2	9.6	20.0	13.3	45.9
1939.....	10.9	17.2	9.9	4.4	8.3	9.7	26.1	15.5	42.7
1940.....	12.5	18.2	10.1	6.0	9.2	10.2	28.6	16.5	46.0
1941.....	16.1	19.0	10.0	8.0	8.1	14.7	25.2	16.4	45.6
1942.....	15.1	20.4	16.9	6.0	10.2	16.3	33.2	20.4	47.7
1943.....	18.1	22.7	19.3	10.1	12.1	17.7	33.8	21.8	55.0

(a) "Cash Income" figures are calculated here as for table XXIV above, and as explained in footnote (b) to that table.

Data on co-operative effort in the marketing of dairy products indicate clearly the regional differences in the co-operative pattern. The consistent importance of co-operative dairy activity in British Columbia is clear — with co-operative business ranging from 42 to 55 per cent of the processed value of dairy products in that province but with no persistent tendency, over the period reviewed for that proportion to change either up or down. In the Maritimes the percentage doubled between 1934 and 1943, while in the Prairies,

considered as a region, the percentage, though higher in the earlier years, did not increase so rapidly. The prairie province total also disguises differences. In Manitoba, the percentage has fluctuated irregularly, with no clear upward trend. In Alberta, and especially in Saskatchewan, it has been sharply upward, bringing the regional trend upward also.

Table XXVI presents a sketchy regional picture for fruits, vegetables and potatoes. Co-operative activity in this field is negligible in the prairie provinces — as is the cash income from the sale of such products. Data for the Maritimes are not available in form to be used in this comparison.

TABLE XXVI

Fruit and Vegetables : Co-operative Business as a Percentage of the Cash Income from the Sale of Fruits and Vegetables.

Crop year ending March	Canada	Quebec	Ontario	B.C.
1933.....	20.3	15.9	.....	.....
1934.....	18.8	15.3	4.0	48.8
1935.....	18.0	18.3	4.9	46.6
1936.....	21.6	34.7	6.1	41.5
1937.....	18.0	14.1	8.3	43.5
1938.....	18.1	24.9	11.1	39.6
1939.....	21.0	20.6	12.3	43.9
1940.....	18.0	9.9	9.3	43.2
1941.....	17.3	17.6	9.5	36.8
1942.....	22.7	22.5	9.9	49.9
1943.....	23.3	22.7	10.8	46.8
1944.....	21.6	16.8	10.2	49.9

Again, perhaps the outstanding fact about the data is the consistently substantial percentage for co-operatives in British Columbia, and also the fact that the British Columbia percentage shows no trend either up or down. The percentage in Ontario shows an increase though still falling short of the British Columbia level, while in Quebec, the fluctuations in percentage reveal no clear pattern either up or down. Divergent development has been compatible with tax changes applicable to all Canadian regions.

Table XXVII presents provincial data for grain and seed.

TABLE XXVII

Grain and Seeds : Co-operative Business as a Percentage of Cash Income from the Sale of Grain and Seeds.

Crop year ending July 31	Canada	Quebec	Ontario	Man.	Sask.	Alta.	B.C.
1933.....	49.4	3.8	1.5	27.9	44.8	43.3	3.2
1934.....	69.5	9.7	2.3	39.4	78.9	55.8	10.6
1935.....	45.1	4.6	5.0	25.9	60.5	27.9	3.9
1936.....	61.1	6.4	8.2	40.4	60.4	54.5	2.6
1937.....	54.3	11.4	7.4	36.5	58.9	39.7	1.1
1938.....	44.2	14.0	4.2	31.5	52.7	39.1	0.4
1939.....	54.8	18.9	4.5	43.0	61.6	39.4	1.2
1940.....	52.2	34.5	5.2	37.9	52.4	38.4	4.6
1941.....	49.7	71.0	5.9	43.6	46.3	35.5	.....
1942.....	48.9	41.4	10.6	54.0	40.8	42.5	19.9
1943.....	39.9	33.0	7.1	41.0	37.7	23.3	19.5
1944.....	48.4	31.7	5.4	58.2	43.3	36.7	35.8

Percentages in this table indicate the relative importance of co-operative activity in the marketing of grain and seed in the prairie provinces — an importance which shows no clear-cut tendency to increase or decrease. There is also indicated here the negligible importance of co-operative grain and seed business in Quebec, Ontario and British Columbia until the last few years. Co-operative proportions have become substantial in Quebec and British Columbia within the past few years; in Ontario there is no pronounced increase from trifling amounts.

Table XXVIII presents a partial picture of co-operative livestock marketings in comparison with cash income from the sale of livestock. Figures for the Maritimes and for Manitoba are appreciable but were not available in form suitable to this analysis. The comparatively steady increase in the all-Canada percentage is made up of somewhat less regular increases in the various provinces.

TABLE XXVIII

Livestock : Co-operative Business as a Percentage of Cash Income from the Sale of Livestock

Calendar Years	Canada	Quebec	Ontario	Sask.	Alta.	B.C.
1933.....	6.3	13.0	10.8	28.4	6.4	.....
1934.....	10.5	9.6	11.0	21.2	9.2	.....
1935.....	9.5	10.2	11.2	16.0	6.9	.....
1936.....	9.9	12.3	9.3	19.8	7.1	.....
1937.....	9.7	6.8	9.5	14.2	6.0	.....
1938.....	9.8	10.2	9.8	25.0	6.5	3.4
1939.....	10.0	6.4	9.6	21.4	7.6	1.8
1940.....	10.3	6.0	9.2	21.5	8.2	.....
1941.....	12.3	8.1	6.8	30.8	15.3	3.5
1942.....	16.9	9.0	8.7	33.7	24.6	6.5
1943.....	18.4	9.6	9.4	36.0	25.0	8.1

Similarly, Table XXIX presents a partial picture of co-operative marketings of poultry and eggs in relation to cash income. Provincial data here tend to be quite irregular, in no case showing a clear-cut upward trend.

TABLE XXIX

Poultry and Eggs : Co-operative Business as a Percentage of Cash Income from the sale of Poultry and Eggs.

Calendar Years	Canada	Quebec	Ontario	Manitoba
1933.....	6.3	6.6	1.0	24.5
1934.....	7.1	3.3	1.7	22.8
1935.....	7.0	6.0	1.3	15.4
1936.....	8.4	9.7	5.8	19.9
1937.....	7.9	11.7	5.6	18.1
1938.....	8.6	5.1	6.2	13.7
1939.....	6.0	10.2	3.7	13.2
1940.....	8.0	9.7	3.5	16.0
1941.....	11.1	9.8	7.1	20.2
1942.....	11.2	9.5	4.4	18.9
1943.....	12.4	13.9	6.5	23.8

SUMMARY:

Perhaps the most significant point of the above comparisons between co-operative activity and cash incomes is the dissimilarity of trends from commodity to commodity and from region to region. There has been much general growth of co-operative business and, in some cases, considerable relative growth in relation to cash income. Neither the absolute nor the relative growth has, however, been uniform from commodity to commodity nor from province to province. Nor have the rates of growth become uniformly more pronounced since 1940.

IV. Analysis of Co-Operative Merchandising

What the Economics Division classifies as "merchandising", as contrasted with "marketing", is purchasing activity. Their "marketing" is the selling of produce. Purchasing includes consumers' co-operation as conducted by co-operative stores and also the purchase of supplies, especially farm supplies, either by marketing co-operatives or by co-operatives organized especially for the purpose. The Economics Division classifies co-operative merchandising activities in relation to the following commodity groups:

- Food products
- Clothing and home furnishings
- Petroleum products and auto accessories
- Feed, fertilizer or spray material
- Machinery and equipment
- Coal, wood and building material
- Miscellaneous

Classification of co-operative data on this basis is not available earlier than 1942.

The chief difficulty in analysing data for the growth of co-operative merchandising activity is that some such activity is retail and some is wholesale. The Dominion Bureau of Statistics classifies merchandising activity into wholesaling and retailing. Co-operative merchandising activity does not fit wholly into either category. Nor are co-operative data broken down into wholesale and retail sections. The Dominion Bureau of Statistics includes data on consumers' co-operative retail stores in the census of retail trade. But they would have no place in retail figures for petroleum products or feeds or other such products when sold in bulk, and this type of business is a substantial part of the co-operative merchandising total. It is impossible to get close comparisons between co-operative purchasing institutions and their volume of business and non-cooperative institutions and their business. Were co-operative merchandising data broken down on a commodity-group basis for ten or twelve years back something could be done in the way of comparisons on that basis. Such classification of materials is available only since 1941. The picture of trends in co-operative merchandising activities and institutions must, therefore, be pieced together as best it can.

Co-operative Merchandising: Proportions and Trends:

Co-operative purchasing or "merchandising" constitutes a relatively small proportion of total Canadian co-operative business. The proportion has, however, increased in recent years, from 5-7 per cent in the early 1930's

to 12-15 per cent in the years since 1940 (See Table II above). The 14 per cent figure for all Canada in 1942-3 was based on provincial percentages which varied from 7 per cent in Manitoba to 51 per cent in Nova Scotia. (See Table I above). In terms of regions, in the Maritimes, co-operative purchasing in 1942-3 accounted for 40 per cent of co-operative business; in the prairie provinces, 11 per cent.

Co-operative purchasing activity increased more rapidly than co-operative marketing from 1939 to 1943 particularly from 1939 to 1942 and more rapidly in some regions than in others (See Tables IV and V above). Co-operative marketing business in Canada had doubled its pre-war volume by the crop year 1942-3. By the calendar year 1943 co-operative purchasing activities had increased 3.2 times. For the crop year 1943-4 co-operative marketing values trebled the pre-war figure, very little short of the nearest comparable increase for co-operative purchasing (318 per cent for 1943). Up to 1942 the outstanding regional divergence within the general Canadian picture was the pronounced increase in co-operative purchasing in the provinces of Saskatchewan and Alberta. By 1943, however, the indices for the provinces were by no means the highest in the provincial list, and, generally speaking, the increases were spread from coast to coast.

Consumers' Co-operative Stores:

Co-operative retail stores constitute one important agency for the conduct of co-operative purchasing activities. Census figures and co-operative reports suggest that nearly one-half of co-operative purchasing in Canada was done by co-operative retail stores in 1941 ⁽¹³⁾.

Table XXX indicates the types and relative importance of such stores.

TABLE XXX

Co-operative Retail Stores in Canada, 1941 (a)

	NUMBER	SALES	
		Am't (000)	Per cent of Total
General Merchandise stores.....	27	\$3,195.8	16.1
Country general stores.....	248	8,823.2	44.5
Grocery stores (without fresh meat).....	69	1,840.6	9.3
Combination stores.....	53	3,370.6	17.0
Restaurants.....	5	130.2	0.6
Filling stations.....	5	145.8	0.7
Farmers' supply stores.....	17	1,048.2	5.3
Other retail stores.....	21	1,284.6	6.5
Total.....	445	\$19,839.0	100.0

(a) *Eighth Census of Canada, 1941, Vol. X, p. XXVI.*

Table XXX makes clear the preponderance of the country general-store type in the co-operative retail picture. The 248 stores in this group had sales of \$8,823,200 in 1941, or 44.5 per cent of the total sales of co-operative retail stores in that year. Including the food and general merchandise groups we account for 87 per cent of co-operative retail sales.

⁽¹³⁾ The Economics Division reported co-operative purchasing for 1941 at \$42,327,000. The Census of Merchandising reported sales of consumers' retail stores for 1941 at \$19,840,000.

Data are not available to show the development of co-operative retail stores year by year and region by region. Table XXXI indicates something of the regional picture at successive census dates.

TABLE XXXI
Co-operative Retail Stores in Canada

	1930 SALES			1941 SALES		
	No. of stores	Amt. (000)	Per cent of total Retail Trade	No. of Stores	Amt. (000)	Per Cent of total Retail Trade
Canada.....	282	\$15,647.9	0.6	445	\$ 19,839.0	0.6
Prince Edward Island...	0	0	0	5	59.0	0.4
Nova Scotia.....	17	2,103.7	2.1	72	3,434.9	2.1
New Brunswick.....	15	890.7	1.0	18	665.7	0.7
Quebec.....	13	1,303.5	0.2	78	3,248.7	0.4
Ontario.....	71	4,809.1	0.4	81	4,478.9	0.3
Manitoba.....	28	689.3	0.4	35	936.4	0.4
Saskatchewan.....	61	2,991.8	1.6	70	2,974.4	1.6
Alberta.....	31	1,288.9	0.7	53	2,169.9	1.0
British Columbia.....	46	2,301.4	0.9	33	1,881.1	0.6

As made clear in Table XXXI between 1930 and 1941 the number of co-operative retail stores in Canada increased substantially; the amount of sales did also. The relationship between co-operative sales and total retail trade, however, remained constant at the almost negligible figure of 0.6 per cent. In only two provinces did co-operative retail trade exceed 1 per cent of total retail trade in 1941. In Nova Scotia the percentage was 2.1 in 1930 and 1941. The 282 co-operative stores equalled 0.2 per cent of Canadian retail stores in 1930, while the 445 in 1941 equalled 0.3 per cent.

Table XXXII indicates these percentages. It also shows a collateral fact of some interest, that between 1930 and 1941 the corporate form of enterprise became less important in Canadian retail trade both as to its proportion of stores and as to the proportion of sales. The offsetting gains in each case were secured by the individual proprietorship.

TABLE XXXII
Distribution of Retail Stores and Sales by Forms of Organizations—1930 and 1941 *

	Stores Per cent of total		Sales Per cent of total	
	1930	1941	1930	1941
Individual proprietorship.....	79.4	82.7	41.5	46.2
Partnerships.....	8.3	7.7	9.8	9.3
Corporations.....	11.5	8.8	44.4	40.7
Co-operative Associations.....	0.2	0.3	0.6	0.6
Other forms (liquor stores).....	0.6	0.5	3.7	3.2
Total.....	100.0	100.0	100.0	100.0

* *Eighth Census of Canada*, Vol. X, 1941, p. XXVI.

Co-operative merchandising compared with retail trade.

As pointed out in the analysis of co-operative marketing activity the pronounced increase in dollar volume in recent years tells little about the relative growth of co-operative as compared with non-cooperative business. Special comparative devices had to be employed to achieve even an approximate idea about relative growth of co-operative marketing activity. The application of similar technique is suggested with respect to co-operative merchandising.

However, in this case, the problem is not nearly so simple. Certain possibilities present themselves. Firstly it is possible to compare co-operative purchasing in the total retail trade. A number of considerations combine to make this comparison unsatisfactory. Figures for retail trade include only part of co-operative merchandising; that is, consumers co-operative retail stores, which involve something less than one-half of co-operative purchasing. To this extent only do co-operative purchasing data, and retail data, cover common ground. The quantitative relationships for Canada as a whole are suggested by the following tabulation for 1941:

Sales through Retail Stores, including consumers co-operative retail stores...	\$ 3,440,902,000.
Co-operative purchasing, including consumers co-operative retail stores.....	42,327,000.
Business of co-operative retail stores.....	19,840,000.

The common ground, which approximates \$20 million, equals nearly half the co-operative purchasing business but less than one per cent of the Canadian retailing total. It follows, therefore, that there need be very little correlation between co-operative purchasing and retail trade. In addition, the greater proportion of co-operative merchandising, especially in non-urban areas is of the wholesale rather than retail type. For example, the greatest proportion of co-operative petroleum business,—which alone constitutes one-fifth of the total co-operative purchasing volume—is sold in bulk to farmers, fishermen and other primary producers. With these severe limitations in mind, consideration can be given to the comparison set forth in Table XXXIII.

TABLE XXXIII

Indices of Co-operative Purchasing and of Retail Trade : Canada
(1935-39 = 100)

—	Purchasing	Retail Trade
1933.....	40.3	73.4
1934.....	44.0	82.1
1935.....	70.4	87.1
1936.....	90.1	94.7
1937.....	110.7	107.2
1938.....	112.4	104.5
1939.....	116.4	106.6
1940.....	142.6	121.2
1941.....	204.1	141.4
1942.....	265.7	149.3
1943.....	317.9	154.3

The single striking fact brought out by Table XXXIII is the substantial excess of the co-operative index over the retailing index by 1943. With the co-operative index at 317.9 and the retail index at 154.3, in that year co-operative merchandising had increased above its pre-war level just twice as far as had retailing in general.

Despite this comparatively sharp increase in co-operative purchasing activity in recent years, it should be borne in mind that the volume of this business is still very small in comparison with the volume of Canada's retail trade. In 1943 co-operative purchasing totalled \$65.5 million while the total of retail trade in Canada was \$3,753.9 million. The co-operative figure was still less than two per cent of the retail figure.

Co-operative Purchasing and Country General Stores

A second comparison is also possible. This involves studying the development of co-operative purchasing in relation to country general stores. Less than half of the co-operative merchandising business in Canada is carried on by co-operative retail stores. Of the business done by these stores, something under one-half is carried on by country general stores—co-operatively owned.⁽¹⁴⁾ Co-operative stores of this latter kind accounted for over one-fifth of Canadian co-operative merchandising in 1941. A comparison between co-operative and non-cooperative country general stores sales would be highly significant. Annual data on the former, however, are not available.

Therefore, a comparison on the basis of annual data involves including all co-operative merchandising, of which only about twenty per cent is related to country general stores. This procedure probably provides a better criterion than the comparison with retail trade generally. Both types of agency serve predominantly the same community—the rural. Hence it might be argued that fluctuations in farm income would be reflected in both types of retail outlet. However, sales of farm producers' goods vary more sharply with changes in agricultural income and production than do sales of consumers' goods distributed by country general stores. Table XXXIV presents this comparison for Canada as a whole. This table tends to substantiate the pattern indicated by the comparison with retail trade, although here again the limitations of these criteria must be kept in mind.

TABLE XXXIV

Indices of Co-operative Purchasing and of Country General Store Sales : Canada
(1935-9 = 100)

	Co-ops	General
1933.....	40.3	.....
1934.....	44.0	.....
1935.....	70.4	.....
1936.....	90.1	.....
1937.....	110.7	105.4
1938.....	112.4	103.2
1939.....	116.4	100.7
1940.....	142.6	106.7
1941.....	204.1	116.2
1942.....	265.7	132.9
1943.....	317.9	148.0

This table indicates a much greater expansion in co-operative merchandising activity than in rural retailing generally, since the pre-war years.

⁽¹⁴⁾ The relationships are expressed for 1941, as follows, for all Canada:

(a) Co-operative merchandising.....	\$ 42,327,000
(b) Consumers co-operative stores.....	19,840,000
(c) Co-operative country general stores.....	8,823,000

Increased agricultural production and income during the war years have resulted in a great increase in the use of feeds and fertilizers. ⁽¹⁵⁾ Feeds and fertilizers form a very considerable proportion of the total purchasing business of co-operative associations. Accordingly, it seems probable that the relatively rapid rate of increase of co-operative purchasing is in part attributable to their increased sales of this product.

TABLE XXXV

	Commercial mixed feeds Preparation	Wheat millfeeds Domestic Consumption	Mixed fertilizers Sales in Canada
	Tons	Tons	Tons
1937.....			191,283
1938.....		396,534	216,602
1939.....	375,900	382,240	232,926
1940.....	413,257	380,133	261,083
1941.....	496,488	380,087	249,667
1942.....	649,938	581,750	347,411
1943.....	805,618	737,043	417,699
1944.....		758,834	455,875
1943 as a % of 1939.....	214	193	180

Table XXXV illustrates the rapid increase in Canadian consumption of commercial mixed feeds, wheat millfeeds and mixed fertilizers.

Co-operative Merchandising Study in Saskatchewan.

Another indication of the relative growth of co-operative merchandising sales is given by a Saskatchewan study published in Regina. ⁽¹⁶⁾ The estimate made there was that in 1938 co-operatives were competing in about half the trading areas in the Province, and for the sale of commodities representing slightly less than half the retail trade of the province. In those goods and services in which co-operatives were doing business in 1938, the co-operatives steadily increased their share of the provincial retail market from 1930 to 1940. The calculations from the Saskatchewan study are presented in Table XXXVI. ⁽¹⁷⁾

TABLE XXXVI

Sales Value of Goods and Services Merchandised co-operatively, Compared with Sales Value of All Similar Products and Services Sold in Saskatchewan (1930-1940)

Calendar Year	Per cent
1930.....	2.1
1931.....	2.2
1932.....	2.3
1933.....	2.3
1934.....	2.3
1935.....	3.3
1936.....	3.1
1937.....	3.5
1938.....	4.4
1939.....	4.3
1940.....	6.0

⁽¹⁵⁾ This suggestion has been made by Mr. W. F. Chown of the Economics Division, Marketing Service, Department of Agriculture, and is used here with his kind permission.

⁽¹⁶⁾ A. H. Turner-Co-operative Purchasing Association in the Province of Saskatchewan, Part II (Regina : n.d., ca. 1941)

⁽¹⁷⁾ Ibid., p. 16.

It must be kept in mind that the percentages in the above table do not represent the co-operative share of the Saskatchewan retail trade, but only the share of the lines of trade in which co-operatives were doing business in the province in 1938. These lines, as pointed out above, represented slightly less than half the total retail trade of the province. On this basis the co-operative figure would approximate 3 per cent of total retail sales in 1940, instead of 6 per cent, and would be reduced for the other years accordingly. If co-operative merchandising figures for Saskatchewan are compared directly with total retail figures for the province for 1940 we get a percentage of 4.1, differing from the above indirect result because of some irregularity in the data.

Incidentally a comparison of co-operative merchandising and of total retail sales in Saskatchewan for recent years yields the following:

Year	Retail Trade (000)	Co-operative Trade (000)	Per cent
1940.....	\$174,235	\$ 7,068	4.1
1941.....	186,885	8,577	4.6
1942.....	194,855	11,225	5.8
1943.....	211,765	13,078	6.2

This sort of analysis is not carried out more generally because it tends to be misleading. It would be wrong to say, for example, that co-operatives performed 6.2 per cent of Saskatchewan retail trade in 1943, for much of the co-operative merchandising business is of a wholesale nature, not included in the retail trade data. In a sense, then, the 6.2 per cent figure is arrived at by adding together some retail and some wholesale business and comparing the total with the retail total.

One other figure mentioned in the Saskatchewan analysis cited above should be mentioned more by way of caution than for purposes of information. The figure is 7.6 per cent, and it represents the proportion between co-operative merchandising and total retail trade in similar goods and services *at points in Saskatchewan where co-operatives were located in 1938*.⁽¹⁸⁾ Again that figure should not be taken to mean that co-operatives did 7.6 per cent of Saskatchewan retail trade in 1938. Rather that in business centers where co-operative merchandising units were located, co-operatives sold 7.6 per cent of the goods and services of the kinds which they handled.

Table XXXVI above makes it clear that co-operative merchandising was making steady gains in Saskatchewan throughout the 1930's. It follows that the growth of the early 1940's was not a new condition, resting exclusively or predominantly on changed tax relationships. It should be clear also that co-operative merchandising occupies a minor place in the Saskatchewan merchandising pattern despite years or even decades of persistent growth.

One aspect of co-operative growth in the merchandising field has appeared with particular reference to Saskatchewan. It is the question of change of store ownership from private to co-operative form, and it has come particularly to attention in the case of country general stores in Saskatchewan. In hearings held by the Commission in Alberta it was stated that in Saskatchewan in the first half of 1944, 171 retail stores were converted from private ownership companies into co-operative associations.⁽¹⁹⁾ Mrs. Neal, an officer of the Wartime Prices and Trade Board, stated under oath in Regina that in the twelve months of 1944, 59 such transfers had taken place.⁽²⁰⁾

⁽¹⁸⁾ *Ibid.*, p. 20.

⁽¹⁹⁾ *Hearings*, Royal Commission on Co-operatives, Vol. IV, p. 1262.

⁽²⁰⁾ *Ibid.*, p. 1263.

No single factor can be taken as a complete explanation for the transfer of store ownership from private to co-operative form. With changes in methods of transportation and communication the whole structure of commodity distribution has been revolutionized within the present generation. The country general store has been under pressure successively from the mail order house, the department store and the chain store for many years. In some cases the transfer from private to co-operative management is an attempt on the part of a rural community to prevent the loss of the last local general-merchandising unit. The success of such attempts has not yet been fully demonstrated.

V. Summary

The foregoing analysis has dealt essentially with the "commercial" types of co-operative activity in Canada, with the selling and buying of goods, with co-operative activities classified by Canadian governmental branches into "marketing" and "merchandising". The marketing of agricultural produce at the local-assembly level predominates in Canadian co-operative marketing activities, though co-operation extends beyond the local field in some agricultural products, and extends to other primary products such as fish. The purchasing of farmers' supplies at the retail level predominates in the field of Canadian co-operative merchandising, though here again co-operative efforts extend beyond the retail to the wholesale and even manufacturing level, and extend to the purchase of consumers' goods by other than farm groups.

Marketing co-operation far outweighs merchandising co-operation in Canada, though the latter has increased its proportion of total co-operative business since 1933, from 5-7 per cent to 11-15 per cent of the total. In the prairie provinces the merchandising proportion remains relatively smaller than the Dominion average. For the Maritimes the merchandising business is 40 per cent of all co-operative business. Co-operative merchandising in Canada has increased more rapidly than co-operative marketing, and more rapidly in the prairie provinces, the Maritimes and Quebec than in Ontario or British Columbia.

The problem set for this analysis was to determine, if possible, whether or not co-operative expansion in recent years has been more rapid than that of non-cooperative institutions engaged in similar work. Particular interest attached to the years since 1939 in relation to a tax investigation because of sharp readjustments of tax levies which became effective in 1940. Failing the possibility of direct comparison between co-operative and non-cooperative institutions comparisons have been made in this analysis between co-operative marketing data and cash income data in terms of specific commodities and regions. The difficulties and limitations of such comparisons have been made clear in the analysis, but certain reasonable inferences can be drawn.

First, considering the co-operative marketing of farm produce. Indications are that co-operative marketing agencies scarcely held their own from 1939 to 1944 for Canada as a whole, that, in fact, non-cooperative marketing agencies may have slightly increased their proportion of agricultural marketings. Regions differed, however. In Quebec, Ontario and Manitoba agricultural co-operatives pretty clearly improved their relative position; they barely held their own in the Maritimes; they lost ground relatively in Saskatchewan, Alberta and British Columbia.

Grain and seed business comprise from 40 to 60 per cent (45.5 per cent in 1943) of Canadian agricultural co-operative business. Such data, then, dominate the picture so long as totals only are considered. Grain and seed co-operatives (notably the wheat pools) have apparently not increased their share of the grain trade by any substantial amount in recent years. The evidence here is not selective enough, in fact, to say whether the co-operative position has improved slightly or regressed slightly. As far as can be told the grain and seed position is little changed.

Consider, then, Canadian agricultural co-operative marketing without grain and seed and the picture becomes much more clear-cut. Co-operatives, except grain co-operatives, increased their share of agricultural marketing business substantially since the pre-war years. The major groups wherein this condition is noticeable are dairy products, fruit and vegetables (including potatoes), livestock, poultry and eggs, and among minor groups with the same trend are tobacco, wool and fur. This was apparent for most regions for each commodity, but in differing degree.

In Part III (B) are to be found rough estimates of the proportion of co-operative to total local-assembly business for each of the major agricultural products. Here again appears the tendency for co-operative proportions to increase in all major farm products except grain and seed. For the most part this tendency extends back to 1933, as far back as comparable data are available, and shows no clear-cut tendency to become more pronounced since 1939.

In Part IV it became clear that Co-operative Merchandising had undergone a very rapid expansion since 1933, and this is especially true since 1939. Nevertheless, co-operative merchandising remains a trifling proportion of Canadian merchandising totals, co-operative retail stores performing less than one per cent of Canadian retail business in 1941.

VI. Tabular Supplement

Data embodied in the following tables were secured from the Marketing Service, Economics Division, Department of Agriculture, Ottawa. They provide the basic co-operative data for the calculations presented in the foregoing analysis.

Apart from minor gaps in the data, as explained in footnotes to various tables, the major omission in this supplement is the absence of any table indicating the value of grain and seeds marketed by co-operatives in each province. Data on this point have been made available to the Research Staff by the Economics Division, but are not for publication because of the requirement that the business statistics of individual firms be not disclosed. This requirement has not, however, interfered with the calculations and analyses in terms of percentages and index numbers.

Other product groups omitted from tabular presentation on a provincial basis are the following: tobacco; honey; maple products; wool; fur; lumber and wood; and miscellaneous. Apart from tobacco, the provincial data for which are not available for publication, the data for the others are of comparatively trifling amounts.

TABLE A

Value of Produce Marketed by Co-operative Organizations in Canada, 1933-44, by Provinces

(In Thousands of Dollars)

Crop Year ending in	Canada	Maritimes	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1933.....	106,804	2,755	6,066	9,190	6,731	32,890	25,229	6,173
1934.....	128,909	2,746	6,175	9,206	8,902	50,677	27,395	6,939
1935.....	117,784	2,673	8,211	11,446	8,402	45,982	20,730	7,253
1936.....	144,963	3,580	11,883	12,922	7,701	49,660	32,305	8,145
1937.....	157,031	3,472	9,502	14,646	11,172	61,571	26,763	7,887
1938.....	134,492	4,085	11,160	16,655	19,131	21,107	33,293	8,063
1939.....	180,747	4,972	10,561	33,014	15,793	48,408	36,039	8,383
1940.....	214,293	4,340	13,885	32,513	16,175	79,024	34,537	8,649
1941.....	215,030	4,082	18,529	28,726	20,226	70,216	37,514	8,123
1942.....	214,763	6,112	27,949	44,284	26,811	44,611	32,999	12,960
1943.....	295,499	8,189	27,949	46,047	32,075	86,082	45,944	16,925
1944.....	459,537	10,038	32,968	51,364	61,014	159,444	78,489	19,546

TABLE B
Value of Commodities Marketed by Co-operative Organizations in Canada by Commodities
(In Thousands of Dollars)

—	Total Produce (2)	Dairy Products (1)	Fruit & Vegetables (2)	Grain & Seed (2)	Livestock (1)	Poultry (1)	Honey (2)	Maple Sugar (1)	Tobacco (1)	Wool (1)	Fur (2)
1933.....	106,804	12,372	6,002	73,771	10,066	1,809	367	287	263	747	.....
1934.....	128,909	14,277	6,783	94,796	17,565	2,409	238	293	6,858	.....	.....
1935.....	117,784	18,474	7,264	81,284	18,777	2,458	594	453	9,202	758	.....
1936.....	144,963	16,329	8,603	97,693	15,371	3,283	211	456	7,693	879	1,454
1937.....	157,031	19,004	8,193	109,355	18,913	3,146	272	668	15,452	649	1,823
1938.....	134,492	19,412	8,278	80,889	16,169	4,297	203	685	17,171	615	1,639
1939.....	180,747	18,580	9,125	111,117	18,775	3,130	245	502	17,758	844	1,654
1940.....	214,293	23,637	10,135	141,981	25,383	4,493	571	839	10,113	1,193	678
1941.....	215,030	38,650	9,355	137,116	40,419	7,192	710	1,138	19,937	1,367	528
1942.....	214,763	43,607	15,432	87,014	62,840	10,924	727	1,138	18,957	1,989	705
1943.....	295,499	52,664	19,505	134,240	82,230	15,315	530	972	18,081	1,794	761
1944.....	459,537	.....	21,093	264,201	.....	.....	647	.....	.....	.....	1,025

(1) Calendar year.

(2) Crop year ending in

Data for individual items for any year will not add up to equal the "Total Produce" figure because of a "miscellaneous products" item omitted.

TABLE C

Value of Merchandise and Supplies Purchased by Co-operative Organizations in Canada by Provinces

(In Thousand of Dollars)

Calendar Year	Canada	Maritimes	Quebec (x)	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1933.....	7,389	1,078	.....	1,926	518	1,666	814	1,244
1934.....	7,992	1,490	222	1,389	867	1,814	521	1,477
1935.....	12,788	1,484	194	2,671	786	2,754	1,511	1,540
1936.....	16,364	1,919	3,063	3,005	609	3,392	969	1,782
1937.....	20,092	2,424	4,393	4,136	895	3,583	885	2,033
1938.....	20,400	2,010	4,117	3,741	1,044	3,674	1,579	2,146
1939.....	21,130	2,223	3,042	3,800	1,153	4,975	2,183	2,097
1940.....	25,895	2,594	3,119	3,834	1,827	6,900	3,409	2,438
1941.....	42,327	5,289	9,038	7,043	2,576	8,501	4,472	3,342
1942.....	55,689	7,152	10,754	9,433	3,801	13,623	4,952	3,707
1943.....	65,509	8,606	14,036	11,647	3,749	14,588	5,646	5,104

Prior to 1941 the Economics Branch did not include consumers' co-operative stores in their survey of merchandising activity if such stores appeared to be non-farmer business organizations. In 1941 and later years they included all such stores. The data in Table C are unadjusted. That is, in 1941 a new group of institutions was included in the total with no attempt at segregation. Part of the increase in the data between 1940 and 1941 (Table C) is due to this fact. The new institutions introduced into the data in 1941 totalled 39 with business of \$5,272,000. Adjustments were made in the data of Table C for the calculations of the foregoing analysis.

(x) Increased coverage.

TABLE D
Merchandise and Supplies Purchased by Co-operative Organizations by Commodities by Provinces
(In Thousand of Dollars)

Calendar Year	Food Products	Clothing & Home Furnishing	Petroleum & Auto Accessories	Feed Fertilizer & Spray	Machinery & Equipment	Coal, Wood & Bldg. Material	Misc.	Total Merchandise
1. Canada.....1941	9,184	1,372	7,240	15,827	1,290	2,931	4,486	42,327
1942	12,617	2,240	9,879	19,282	480	4,911	6,281	55,689
1943	14,822	2,479	11,256	25,472	812	4,312	6,355	65,509
2. Maritimes.....1941	2,804	366	127	1,693	130	18	152	5,289
1942	3,289	403	20	3,104	209	24	103	7,152
1943	3,660	487	173	3,747	128	52	357	8,606
3. Quebec.....1941								9,038
1942	1,312	131	4	9,162	7	15	123	10,754
1943	2,016	209	19	11,696	9	45	42	14,036
4. Ontario.....1941	1,997	41	182	2,358	95	609	1,763	7,043
1942	2,269	90	157	4,255	65	982	1,615	9,433
1943	3,110	106	175	6,167	125	748	1,216	11,647
5. Manitoba.....1941	346	48	1,482	126	113	455	6	2,576
1942	1,145	160	1,420	124	46	442	464	3,801
1943	524	143	1,543	157	138	585	659	3,749
6. Saskatchewan.....1941	2,219	555	3,902	220	600	1,004	1	8,501
1942	2,382	595	6,585	76	61	2,236	1,688	13,623
1943	2,548	501	7,553	201	248	1,774	1,772	14,588
7. Alberta.....1941	1,108	236	1,441	562	207	183	735	4,472
1942	1,453	600	1,580	299	20	257	743	4,952
1943	1,616	637	1,704	323	25	291	1,051	5,646
8. British Columbia.....1941	710	125	86	1,687	145	103	487	3,342
1942	768	259	88	2,141	72	156	223	3,707
1943	1,182	395	74	2,870	140	71	371	5,104

The years indicated here are the only ones for which a commodity breakdown is available. Before 1941 the Economics Division compiled merchandising data only in terms of total volume. Provincial data here will not add up to equal the total for all Canada because of an interprovincial item in each year.

TABLE E

Value of Dairy Products Marketed by Co-operative Organizations in Canada by Provinces

(In Thousands of Dollars)

Calendar Year	Canada	Maritimes	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
1933.....	12,372	744	2,621	2,682	666	270	1,440	3,028
1934.....	14,277	820	3,784	3,051	760	438	1,584	3,233
1935.....	18,474	1,054	5,162	3,500	715	515	1,645	4,192
1936.....	16,329	1,291	1,700	3,970	491	572	1,892	4,233
1937.....	19,004	1,626	3,890	4,720	597	855	2,185	4,257
1938.....	19,412	1,625	4,764	4,669	868	837	2,529	4,068
1939.....	18,580	1,426	4,817	3,284	829	857	3,082	3,956
1940.....	23,637	1,639	5,145	4,996	1,062	1,111	3,593	4,576
1941.....	38,650	2,312	6,660	7,973	1,268	2,346	4,532	5,357
1942.....	43,607	2,915	13,986	7,288	1,819	3,075	7,084	6,444
1943.....	52,664	3,636	16,034	11,750	2,240	3,750	7,560	7,695

TABLE F

Value of Fruit and Vegetables Marketed by Co-operative Organizations in Canada by Provinces

(In Thousands of Dollars)

Crop Year ending in	Canada	Maritimes	Quebec	Ontario	British Columbia
1934.....	6,783	1,561	931	514	3,773
1935.....	7,264	1,335	1,266	717	3,934
1936.....	8,603	1,661	2,438	898	3,573
1937.....	8,193	1,148	1,259	1,437	3,576
1938.....	8,278	1,207	2,033	1,802	3,713
1939.....	9,125	2,514	1,556	1,942	4,073
1940.....	10,135	2,233	1,109	2,128	4,463
1941.....	9,355	1,375	1,954	2,096	3,501
1942.....	15,432	2,044	2,770	3,192	5,489
1943.....	19,505	2,634	3,108	3,959	7,657
1944.....	21,093	3,899	2,509	4,212	9,919

Data for prairie provinces omitted because negligible.

TABLE G

Value of Livestock Marketed by Co-operative Organizations in Canada by Provinces.

(In Thousands of Dollars)

Calendar Year	Canada	Quebec	Ontario	Saskatchewan	Alberta
1933.....	10,066	1,264	4,489	2,243	885
1934.....	17,565	1,315	5,367	2,708	2,040
1935.....	18,777	1,646	5,902	2,708	1,889
1936.....	15,371	2,258	6,222	4,215	2,174
1937.....	18,913	1,774	7,495	4,437	2,165
1938.....	16,169	2,571	7,451	2,754	1,909
1939.....	18,775	1,878	7,800	3,278	2,580
1940.....	25,383	2,446	8,915	5,412	3,704
1941.....	40,419	4,012	8,288	10,896	10,180
1942.....	62,840	4,667	11,716	16,606	19,671
1943.....	82,330	6,119	13,343	26,476	24,576

Data for other provinces not published in order not to reveal the business of individual concerns.

TABLE H

Value of Poultry Marketed by Co-operative Organizations in Canada by Provinces.

(In Thousands of Dollars)

Calendar Year	Canada	Quebec	Ontario	Manitoba
1933.....	1,809	157	155	470
1934.....	2,409	95	320	480
1935.....	2,458	173	229	385
1936.....	3,283	322	1,200	519
1937.....	3,146	405	1,169	475
1938.....	4,297	368	1,375	548
1939.....	3,130	797	824	557
1940.....	4,493	852	853	681
1941.....	7,192	915	1,749	1,230
1942.....	10,924	1,206	1,664	1,852
1943.....	15,315	2,082	3,162	2,729

Data for other provinces not entered in order to conceal business of individual firms.

CANADA

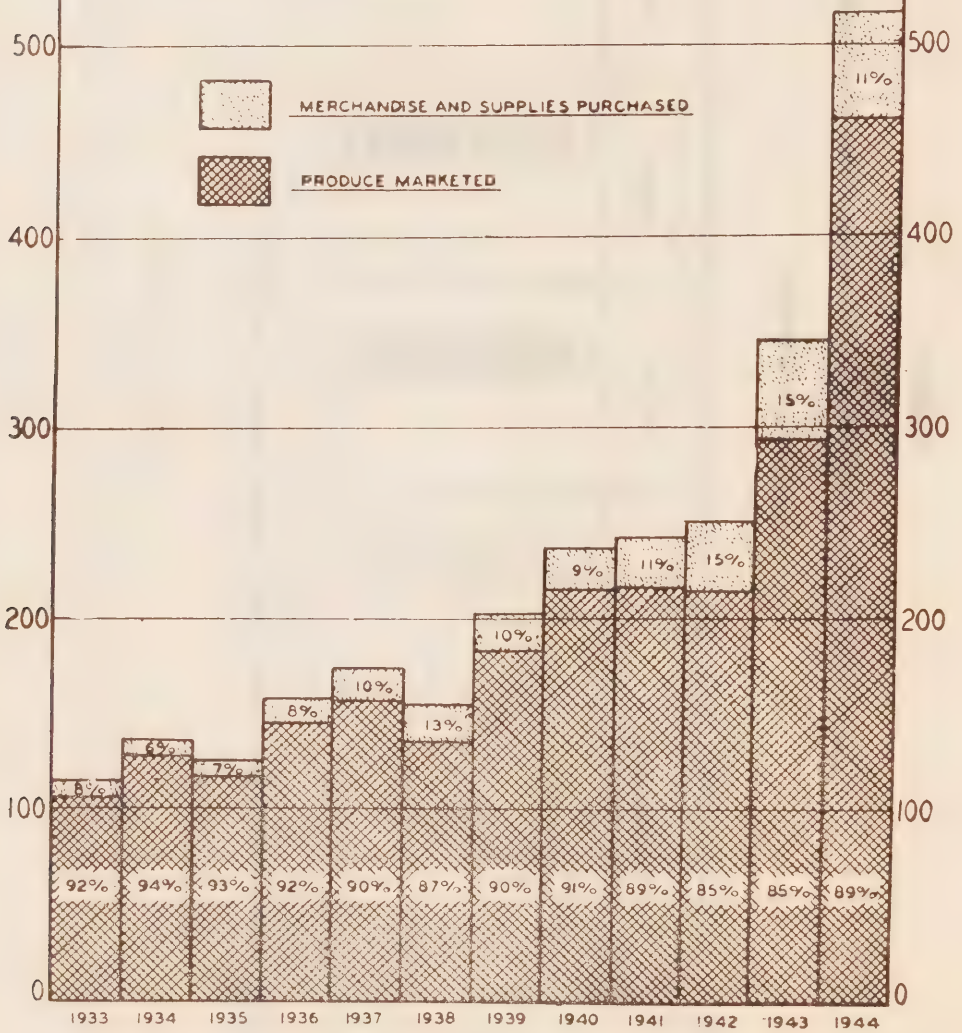
PRODUCE MARKETED AND MERCHANDISE AND SUPPLIES PURCHASED
BY COOPERATIVES : 1933-44MILLIONS OF DOLLARS

FIGURE 1

CANADA**COOPERATIVE BUSINESS: BY PROVINCES: 1943-44****FIGURE 2**

CANADA

VALUE OF COMMODITIES MARKETING BY COOPERATIVES:
BY PROVINCES: 1943-44

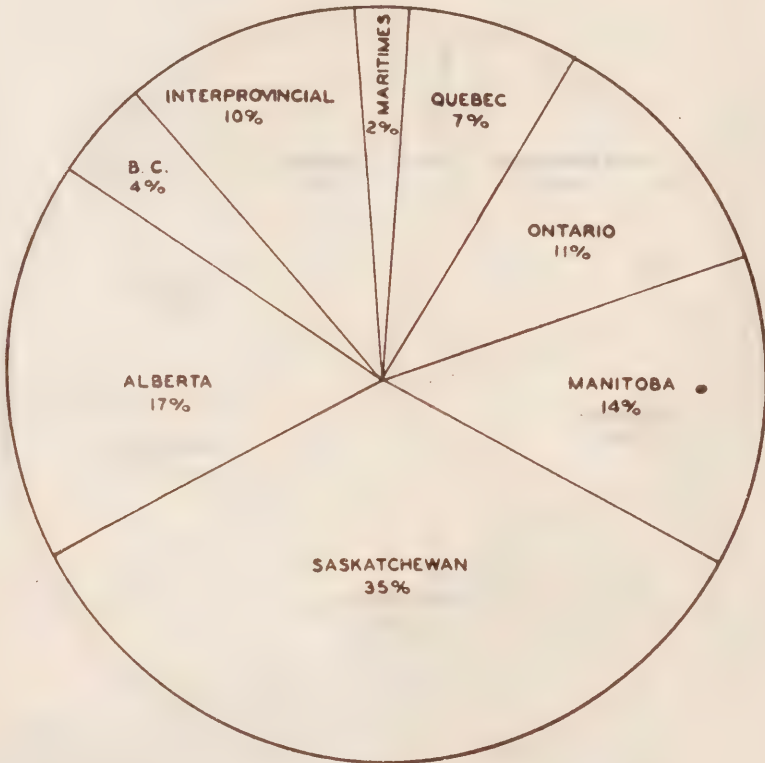


FIGURE 3

CANADA

RELATIVE VALUE OF COMMODITIES MARKETING
BY COOPERATIVES 1943-44

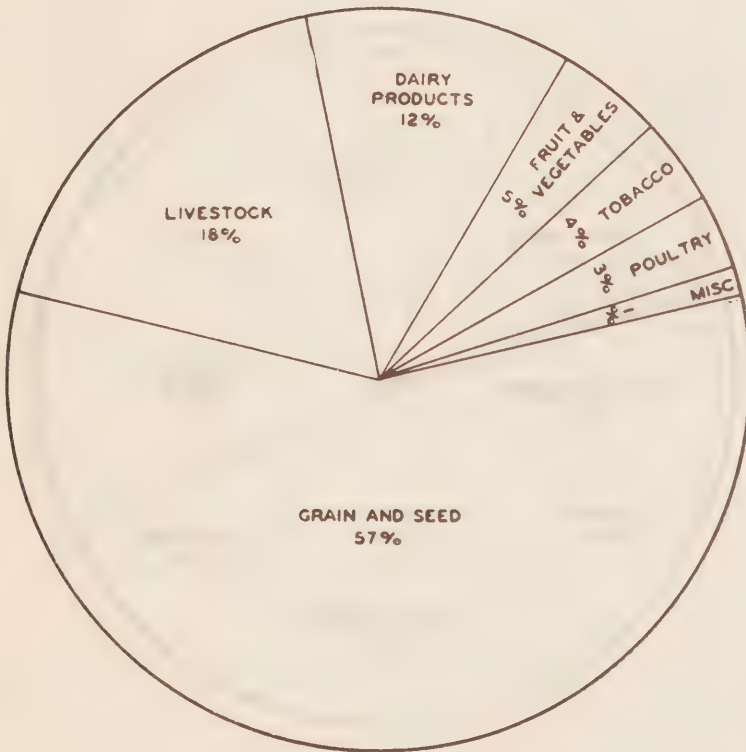


FIGURE 4

CANADA

MERCHANDISE DISTRIBUTED BY COOPERATIVES:
BY PROVINCES 1943 - 44



FIGURE 5

CANADA

MERCHANDISE DISTRIBUTED BY COOPERATIVES;
BY COMMODITIES 1943-44

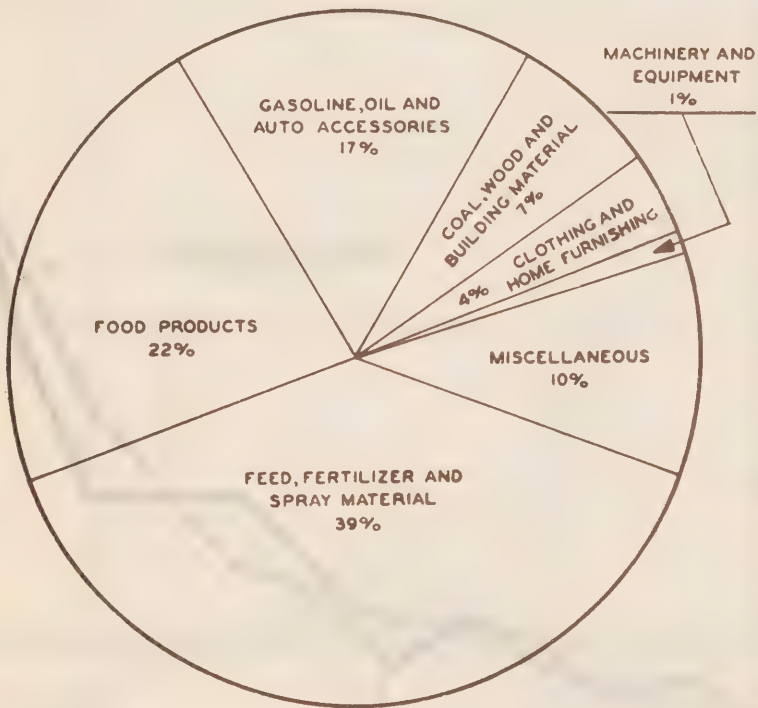
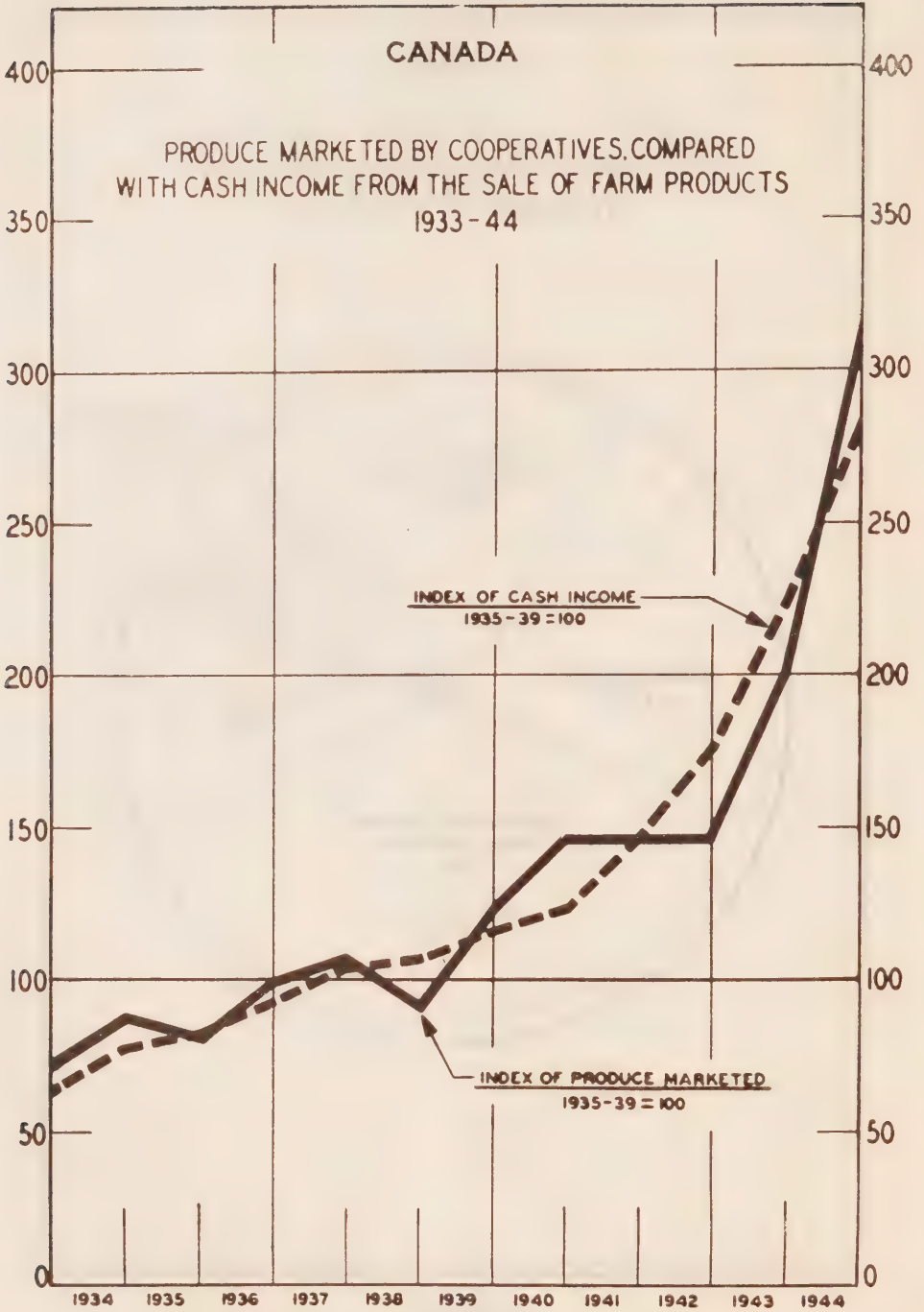
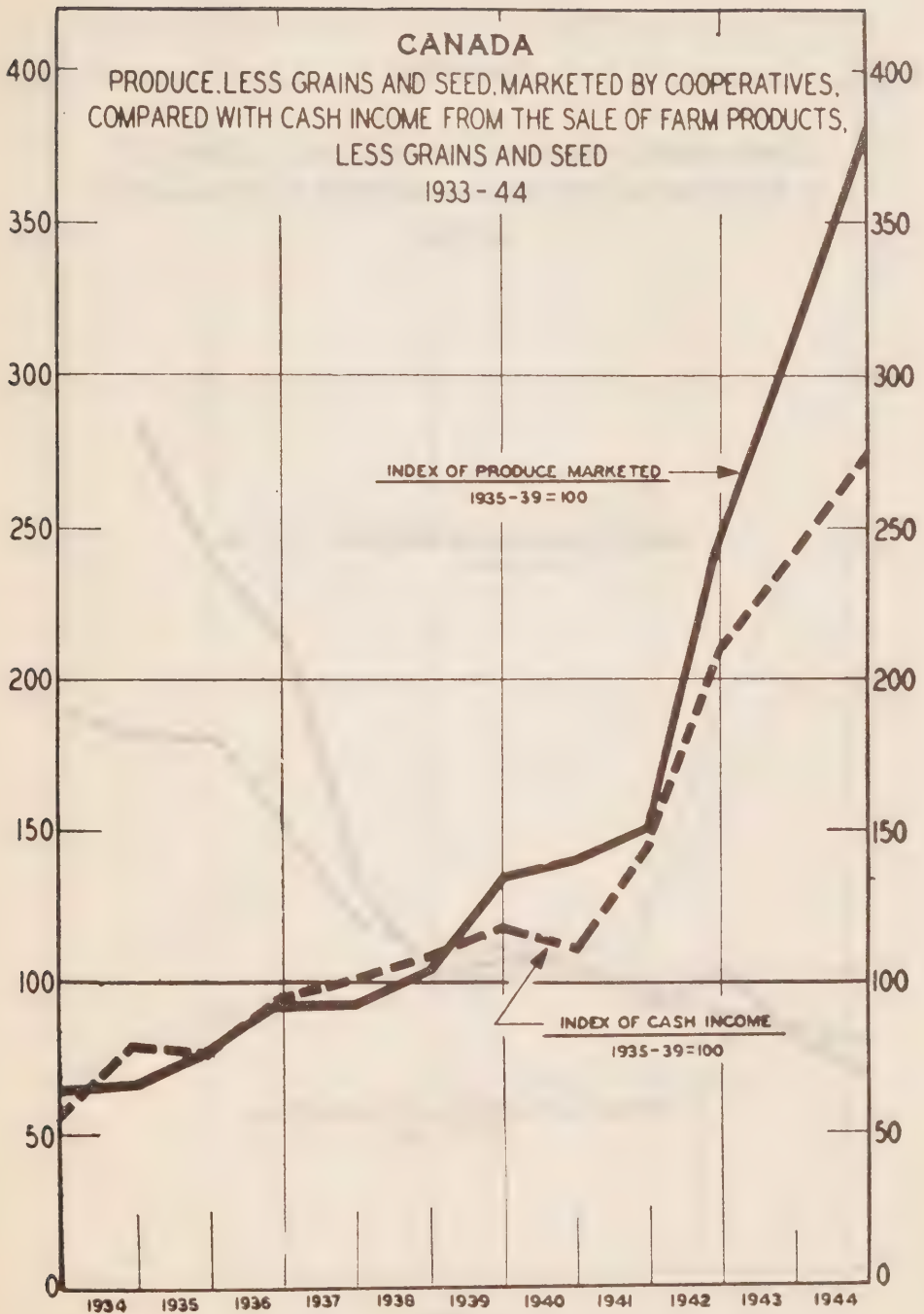
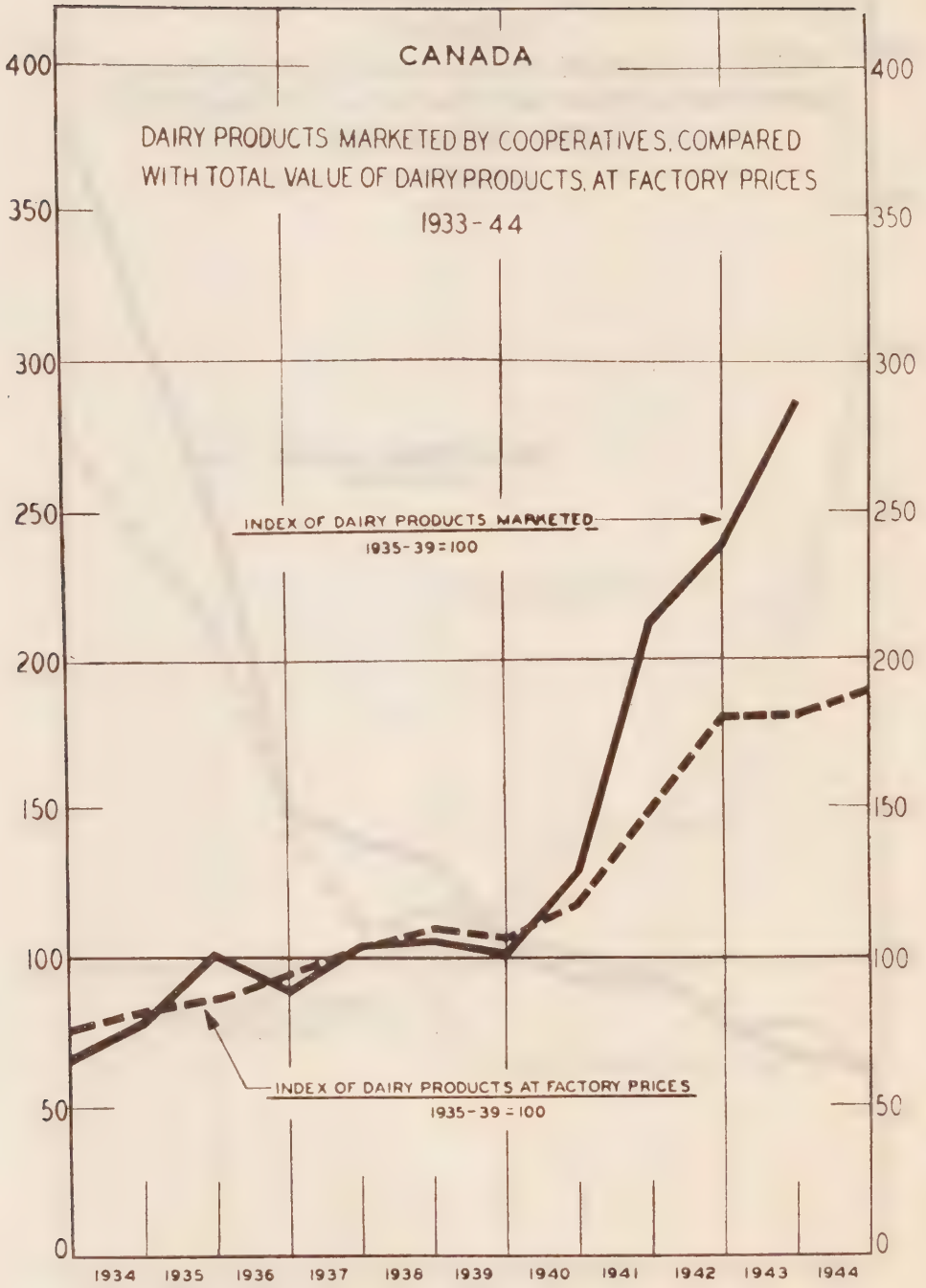
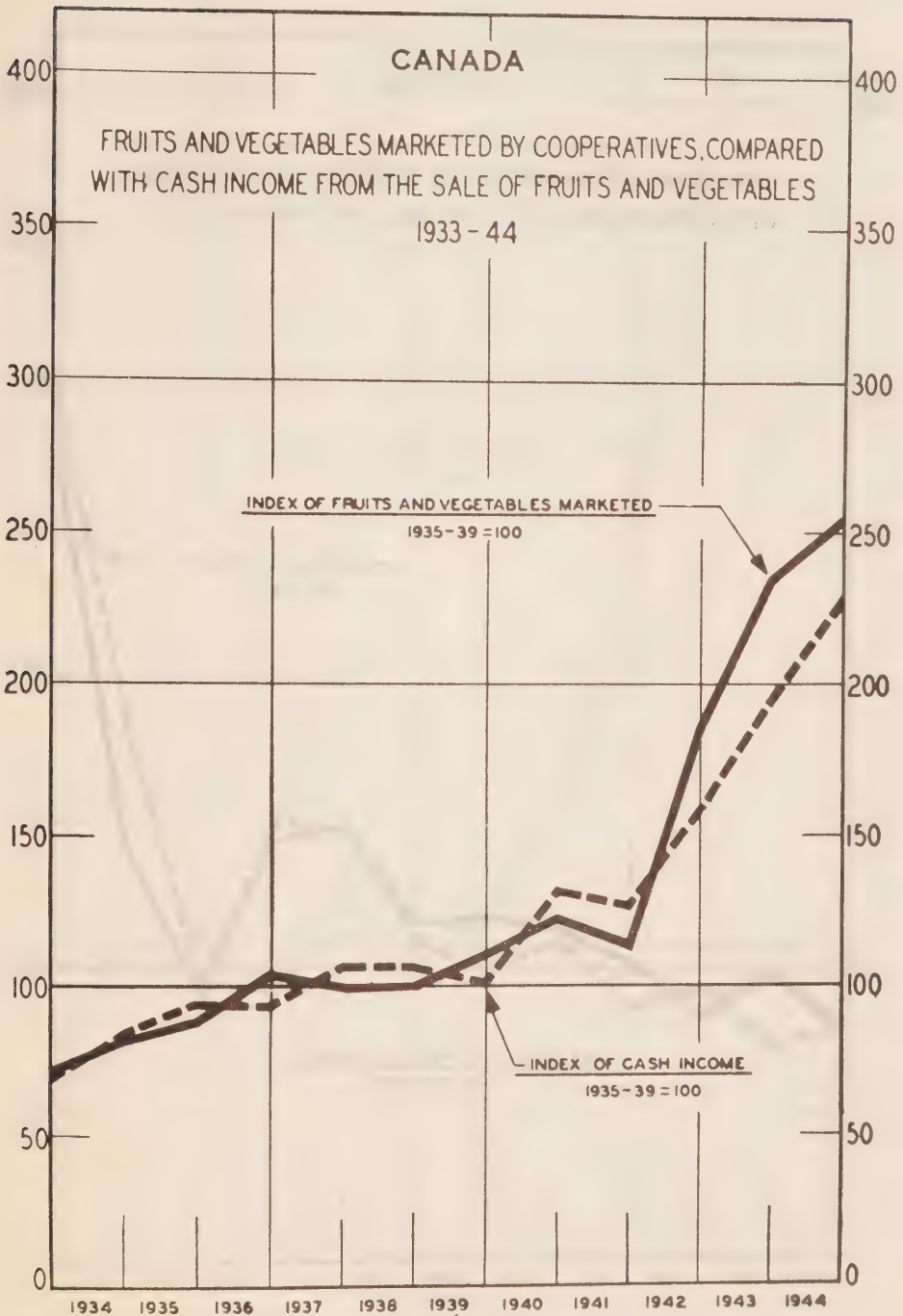


FIGURE 6









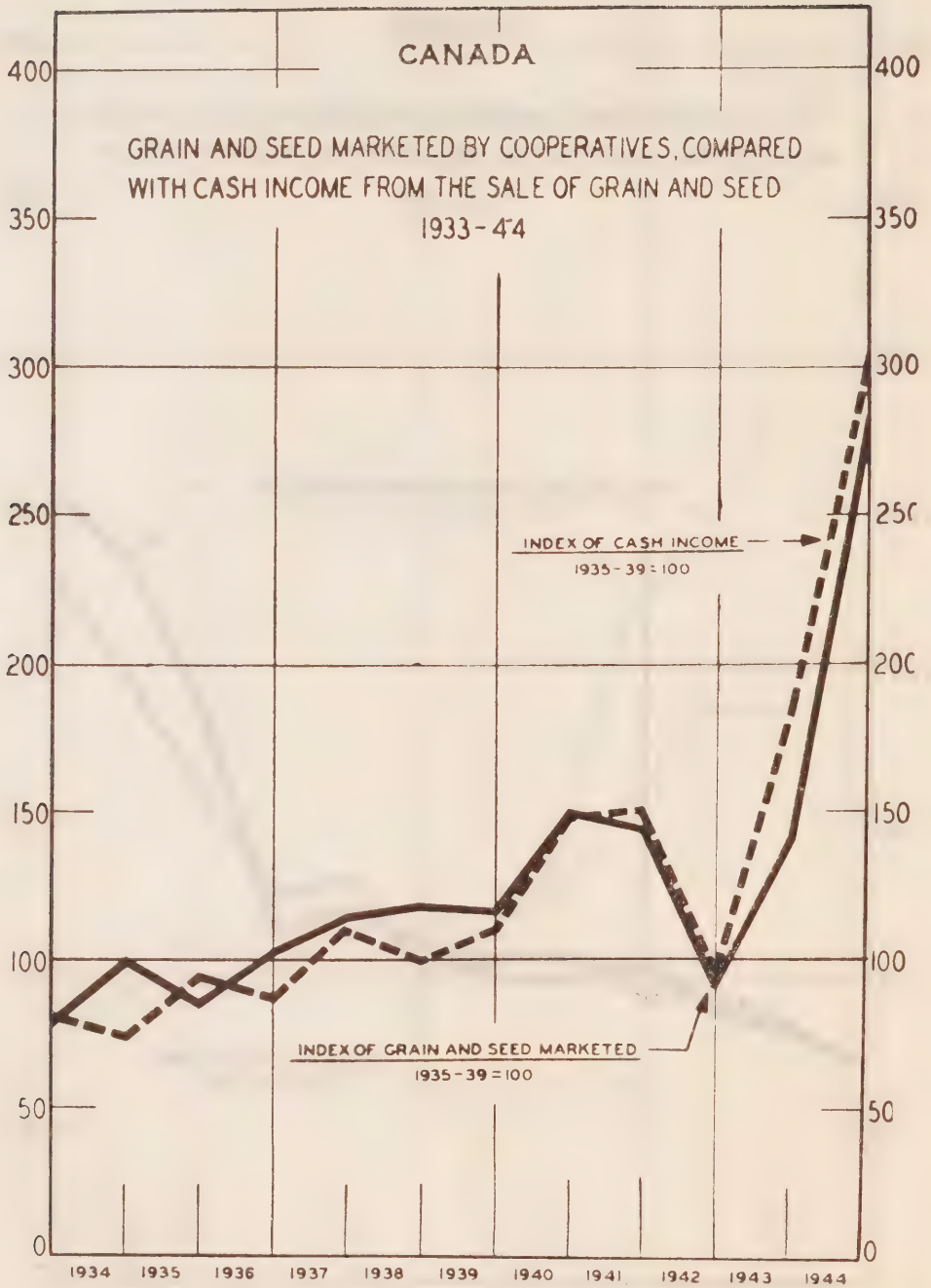
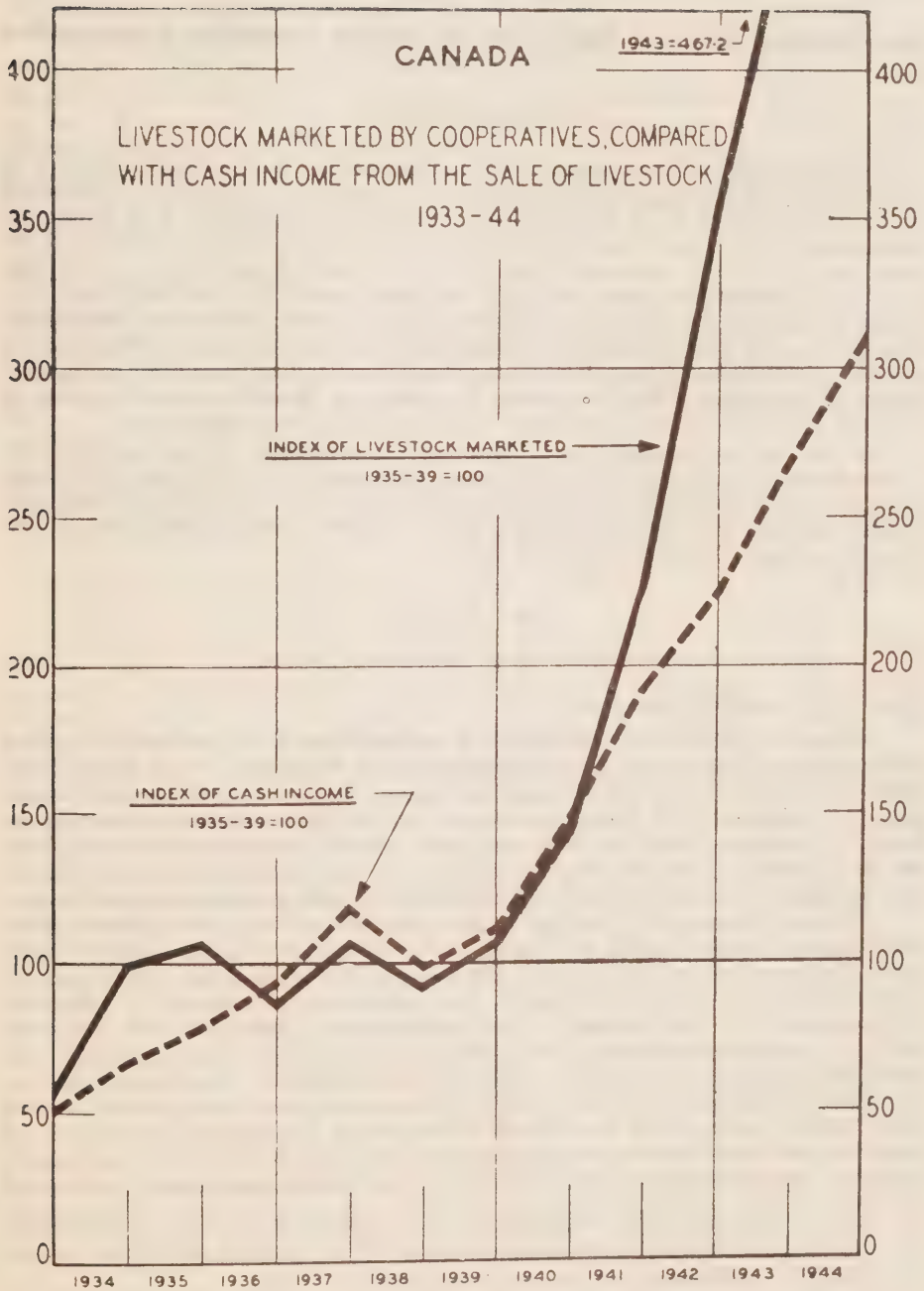


FIGURE 11



APPENDIX B

The Organization and Operation of certain Canadian Co-operative Associations

INTRODUCTION

Canadian co-operative organization and practice is extremely varied. It is desirable, therefore, to supplement the summary description contained in the main Report by a more detailed analysis of the affairs of a sample of associations which were represented before the Commission or submitted reports to it. In this Appendix, there will be found a description of certain co-operative associations engaged (a) in the grain trade, (b) in the dairy industry, (c) in livestock marketing, (d) in handling and processing fruits and vegetables. In addition, the United Farmers Co-operative is examined as an example of a central organization engaged in marketing, processing, manufacturing and wholesale activities. The Canadian Co-operative Wool Growers Limited is included as a co-operative federation whose activities are nation wide.

In treating the main fields of co-operative activities, the geographic conditions emphasize the general differences in practice in different provinces. Some of the associations mentioned illustrate the general industrial and geographic pattern in so far as a pattern exists. Others exhibit interesting variations from general co-operative practices.

SECTION I

CO-OPERATION IN THE GRAIN TRADE

Genesis of Farmer Organization

Farmer organization did not gain a foothold on the Prairies till the turn of the century. While the first co-operative was formed in Nova Scotia forty years previously, and the Grange movement spread into Eastern Canada from the South in 1872, these movements did not gain popular support in the West. It was only when the Western region began to suffer from the complexities of a rapidly industrializing economy that enough solidarity of interest was aroused to encourage the first attempts at grain growers co-operation.

Certain aspects of Canadian wheat production tend to enhance these difficulties. On the supply side there is concentration of wheat areas due to lack of alternative uses for wheat lands. For example, over three quarters of the cash receipts of Saskatchewan farmers came from wheat. Production is hazardous, both economically and climatically. Demands are relatively inelastic, price changes having little effect on the volume of consumption. In short, the inability of supply to adjust to demand makes wheat production an extremely precarious occupation. This is important to an understanding of the later difficulties in which the Wheat Pools found themselves. Much of the experience of the grain trade in the past fifty years can be traced to the peculiar economic and geographic environment within which agriculture is situated.

Four phases are distinguishable in the evolution of Western co-operation.

- (1) The period 1900-1917, which saw the rise of the grain growers associations and the beginning of co-operative marketing activity.
- (2) The Wheat Board of the immediate post-war, which first taught the farmers the value of pooling.
- (3) The period 1923-31, in which pooling activity reached the proportions of large scale business enterprise.

- (4) The return of the Wheat Board of 1935, which acted as a guarantor to the farmer of a minimum return for his product.

The early history of co-operative development in Western Canada including the period which saw the rise of the farmers' elevator companies during the period from 1900 to 1917, and the beginning of co-operative marketing activity as well as the work of the Wheat Board during the period immediately following the first Great War which aroused interest in pooling, has been dealt with in numerous books and publications on the subject. This survey of co-operation in the grain trade, therefore, deals with the period from 1919 on including the operation of the first Wheat Board.

The Wheat Board, 1919-20

By the end of the war, both farmers' companies and the Saskatchewan Co-operative Elevator Company, that is the United Grain Growers, had built up impressive records, and together handled 25% of all grain marketed in Western Canada. Several benefits to the farmers were claimed as a result of their activities. ⁽⁵⁾

- (1) Dependence on private middlemen had been reduced.
- (2) The efficiency of marketing services had been greatly increased.
- (3) The profits of these marketing services had been returned to the farmer either in cash or in improved facilities.
- (4) Farmers' organization had been greatly strengthened, especially from the legislature and protective viewpoint.

However, the fact that these organizations operated on a profit-making basis (albeit distributed to the patrons), laid them open to inevitable criticism and suggested a new approach to co-operative marketing-pooling. "Henceforth the pooling method, first on a compulsory, then on a voluntary contract basis, became the objective of the majority of Prairie farmers." ⁽⁶⁾

During the years 1917-18, and 1918-19 grain was marketed under the supervision of the Board of Grain Supervisors, which had the authority to fix a government guaranteed price both for domestic and export grain. The year 1919-20 saw a continuation of central purchasing in Europe, and restricted shipping space, and this combined with a low wheat yield in Canada to bring about the establishment of the Canadian Wheat Board, with exclusive powers to handle the entire 1919 crop. The Board differed from the Board of Grain Supervisors, in that it was a marketing and not merely a regulating body. It acted as a compulsory national pool, which bought all wheat at a fixed price, and issued a deferred dividend certificate. The Board's powers expired in June, 1920, but the dividend was so high, and the marketing so efficient that the grain growers began immediately to agitate for its re-establishment.

With the expiry of the Board, "normal" trading resumed on the Winnipeg Exchange. This led to a price decline from \$2.78½ in September, 1920, to \$1.76½ in April 1921. The Canadian Council of Agriculture immediately sought remedial action. In 1922, a proposal was made for another Wheat Board, provided that at least two provinces ratified the proposal, so as to maintain its constitutionality. This was necessary because the "extraordinary" conditions of the war no longer obtained. The idea was abandoned, however, because no competent person could be found who would accept the managerial responsibility. Premier Dunning of Saskatchewan then put for-

⁽⁵⁾ H. S. Patton — Grain Growers Co-operation in Western Canada — Harvard University 1928, p. 189.

⁽⁶⁾ *Ibid.* p. 194.

ward an alternative proposal—that the government sponsor a voluntary pool on an optional (no contract) basis. However, the grain growers rejected this idea, because of the optional feature. With the failure to achieve a Wheat Board, the farmers turned again to independent action.

The Wheat Pools

In July, 1923, the United Grain Growers proposed that the Canadian Council of Agriculture sponsor a wheat pool, on a contract basis. However, no inter-provincial co-operative could be achieved, and at a conference in Regina, it was decided that each province establish its own pool, with a central selling agency to co-ordinate marketing policy.

Accordingly, each of the three provinces took steps to set up such a pool. In Saskatchewan, the S.G.G.A., and the Farmers Union were independently working on such a project. However, dualism was averted, when a California lawyer, with experience in Western marketing co-operatives, brought in in an advisory capacity, stressed the importance of unity. Thus, when the pool was established, for the 1923 crop, it received the united support of the farmers of the province. A similar pool was set up in Alberta. In Manitoba and Saskatchewan, the pools were set up too late to market the 1923 crop. For the 1924 crop, all three pools were well established. The sign-up in Saskatchewan exceeded its objective of fifty per cent of the wheat acreage of the province, and even in Manitoba, one third of all wheat acreage was placed under contract. Plans for the Central Selling Agency could not go forward.

Federal incorporation was obtained, in 1924, for the Canadian Co-operative Wheat Producers, Limited, known as the Central Selling Agency Pool. This pool was set up with a capitalization of \$150,000, and with equal representation from each of the three provinces, although Saskatchewan was the primary producer. Alexander J. McPhail, president of the Saskatchewan Pool, became president, also, of the C.S.A. An agreement among the three pools was reached to last over the crop years 1924-27, inclusive, but any pool could withdraw upon three months' notice, before July 1st of any year. The provincial pools were still responsible for the recruiting of members, the maintenance of patronage, and the acquiring and maintaining of all terminal facilities; but sales were the responsibility of the central agency.

From the year of its inception, until 1928-29, the year it reached its peak, the Pool, that is the Central Sales Agency, expanded continuously. During these years it handled over one billion bushels of grain, which was 52% of the wheat delivered by all Western growers. The Pool also assumed the responsibility of arranging for the financing of initial payments to the growers. The proceeds of the sales repaid the banks and provided for interim and final payments. However, while much progress in pool marketing was made, some dissension among the three constituent pools handicapped the central agency, especially administratively. A particularly serious dispute arose over elevator policy.

Pool Elevator Policy

While the three provincial pools were very active in the grain marketing field, the United Grain Growers and the Saskatchewan Co-operative Elevators controlled elevator facilities, and the pools had to rely upon their co-operation for elevator accommodation. Accordingly, a movement was started within the three pools, to acquire their own elevators. Some plan of amalgamation was desired, but little basis of understanding could be reached because of a difference in outlook. The pools stressed the "functional" aspect more than did the other two groups.

In 1925, the Saskatchewan Pool embarked upon a policy of acquiring its own elevators. By autumn of that year, the Saskatchewan Pool Elevators Limited had been set up, with 86 elevators ready for use. Finally, in April, 1926, the Pool purchased the elevators of the Elevators Company, and effected the union of the two groups.

However, the taking over of the United Grain Growers was not nearly so simple a matter. The Grain Growers were organized interprovincially, and the three Pools could not agree on a basis of mutual ownership. Finally, an offer was made in December, 1926, but the United Grain Growers refused to sell. It was felt that the Grain Growers facilities should be kept intact to meet the needs of non-pool producers. After this, the three Pools went ahead with their own elevator project.

With responsibility for elevator facilities resting on the provincial groups, the Pool went ahead with its marketing activities. Steps were taken to extend its operations. Not only was a seat on the Winnipeg Grain Exchange acquired, but where possible, direct relations were established with buyers. The aim of the Pool was to raise prices and to reduce costs through marketing efficiencies, such as the elimination of middlemen where practicable. This policy of direct relations with the terminals enabled the Pool to surmount the crisis of 1925, when prices on the Exchange fell to a low level. On the whole, the Pool was meeting with considerable success. An aggressive sales policy had increased exports considerably. This was also the result of centralized marketing technique. Secondly, the Pool developed a number of Pacific ports as centres for the export of wheat, notably Prince Rupert. Finally, the mass marketing of many varieties of wheat had necessitated the development of improved grading techniques.

The Collapse of Central

The year 1928-29 saw many difficulties which boded ill for the future of the Pool. For one thing, the existing contracts in the three provinces had expired and a re-canvass was necessary in order to maintain membership. This campaign was hindered by a movement from within the provincial pools for compulsory co-operation. Such friction handicapped the pools administratively. More important, the Pool was beginning to face very intensive competition in the European market. Not only were Russia and Argentina carrying on an aggressive sales policy, but the European buyers, resenting the idea of organized selling, were apparently favouring these other countries at the expense of Canada.

The high price at the beginning of 1929 encouraged a large initial payment. Financial weakness resulted from the subsequent decline in this price. The decline was brought about by a number of factors, including the development of a trade depression throughout Europe, which encouraged the erection of tariff barriers against imports such as Canadian wheat. The severe price fall on the Grain Exchange in October, 1929, left the pools with a large quantity of wheat of which they found difficulty in disposing. In the autumn of 1929, a crisis was precipitated which threatened the financial structure of the Pool.

Several measures were adopted to meet this crisis. The protection of prices was attempted through hedging activities on the exchange. Also, a temporary guarantee was received from the governments of the three Prairie Provinces, which would protect the margins of the provincial pools with the banks, provided that Central pursued a "cautious selling policy". It was agreed to "sell wheat as the market will absorb locally, and continue to work as much as possible abroad". (7)

(7) H. A. Innis (ed) — *The Diary of A. J. McPhail*. (Toronto, 1940).

After the provincial guarantee expired, suitable arrangements respecting the financing of the 1929 crop were reached with the bankers, on the security of a letter signed by the three provincial premiers. A lower payment was made with respect to the 1930 crop. Also "an agreement was reached on the 26th August, 1930, between the Wheat Pool, the provincial governments and the seven lending banks that 'all sales of wheat by Central are to be apportioned equally as to value between the old crops and the 1930 crop, in so far as is practicable' ".⁽⁸⁾

By October, 1930, prices had fallen to a "calamity" level—about fifty cents per bushel—and some sort of relief was urgently needed. The farmers felt that such relief could be found in Imperial preference, whereby it was hoped to stimulate export markets. However, little relief was forthcoming, and when the banks pressed for additional security, the pools were helpless. Mr. J. I. McFarland was appointed general manager on the express demand of the banks. This meant in effect that the pools had lost control of the Central Selling Agency. The idea of winding up the organization was under consideration, when no improvement in the situation was apparent by June, 1931.

The problems with which the pools were faced, were truly formidable: ⁽⁹⁾

1. A debt of staggering proportions was owed. (Nearly \$23 million).
2. Prices were very low.
3. There was a severe crop failure in Saskatchewan.
4. The small Ontario pool, which had been established in 1928 by the United Farmers of Ontario, as an affiliate of the Pool, had collapsed altogether.

Therefore, the provincial governments asked the Dominion government to establish a National Wheat Board to market the 1931 crop. However, the proposal was made too late to be effective, and an alternative was adopted. Each pool was to operate separately, using the existing elevator facilities. The pooling technique was sacrificed; grain was purchased outright, backed by government financial support. The contracts of the members were not enforced, and upon expiry in 1933, no attempt was made to renew them. Between 1931 and 1935, pooling became very unimportant—only a very minor portion of Canadian grain was marketed in this way. The Central Selling Agency had ceased to operate entirely.

The chief activities which the agency carried on between 1931 and 1935, under the direction of Mr. McFarland were directed toward stabilizing prices. "In speaking of the stabilization measures, all that may be said is that they consisted in holding unusually large quantities of grain out of the cash market for long periods of time, and adding to the Central Selling Agency's cash wheat by the buying of futures. The reasons given for this policy were: excessive world supplies, a scarcity of buyers, and unusually low prices."⁽¹⁰⁾

The chief task facing the pools during this period was the settlement of the huge debts owed. An arrangement was made whereby those debts could be liquidated over a period of twenty years. The long uphill struggle to recovery then began.

A resumption of pooling was desired, although on a compulsory and more comprehensive basis. In fact, agitation for compulsory marketing had begun in Saskatchewan in 1929. Progress in this direction was slow and unsatisfactory, and again government aid was sought. In 1933, a petition signed by

⁽⁸⁾ Ibid. p. 218.

⁽⁹⁾ Hugh Boyd. — "New Breaking". (J. M. Dent & Sons, Toronto, 1938).

⁽¹⁰⁾ Report of the Royal Grain Inquiry Commission, 1938, p. 36.

107,000 people from Saskatchewan, asking for a marketing plan, was presented to the federal government. This case for national co-ordination was reinforced by the plan offered by the London Wheat Agreement of 1933, by which a quota, based on past sales, was allotted to each of the chief exporters.

The Canadian Wheat Board

Finally, in 1935, a national marketing board was set up, to pay a guaranteed minimum price to the grower. (This price was set at 87½¢, initially). Dealing with the Board was entirely at the option of the grower. It operated over the 1935-36 season. The Board, when it began operations, conducted an aggressive sales campaign, and succeeded in liquidating much of the excessive stocks it had on hand. Originally, Mr. McFarland was appointed as commissioner, but in December, 1935, he resigned and was replaced by Mr. J. R. Murray.

"There is no doubt that the interest of the Canadian Wheat Board Act of 1935 was to protect the Canadian producers against untimely developments in the international wheat situation. In actual fact, the Canadian Wheat Board, through its power to fix a minimum price, through its power to receive Dominion financing, and through its power to transfer deficits to the Dominion government, really acts as a buffer between chaotic conditions in the international wheat market, and the farmers on the land of Western Canada." (11)

During the 1936-37 and 1937-38 seasons, the Board would have acted only if the price of wheat at Winnipeg fell below 90 cents. During these two years the price did not fall below this minimum, so that in effect, the Board's activities were suspended. The action of the Board was purposely made neutral, during this period, pending the outcome of the inquiry being undertaken by Mr. Justice Turgeon. Mr. Justice Turgeon reported that under conditions existing at that time, it was advisable that the Board, as then constituted, be maintained as a safeguard against low prices.

During the 1938-39 season, the situation changed. By July, 1938, prices declined sharply due to a large acreage, good yield, and relatively small demand. This meant that the Board again became active, in the marketing of the wheat crop, at a price of 80¢. Practically all of the 1938-9 crop was marketed through the Board.

In 1939, two further developments took place. The Canadian Wheat Board Act was amended to limit the deliveries from any one grower to 5,000 bushels. Anything in excess of this had to be marketed either co-operatively, or through the open market. Co-operative marketing was assisted by the Wheat Co-operative Marketing Act of the same year. By that Act, any co-operative association which agreed to maintain its initial payment at a level fixed by the government, had that initial payment guaranteed, in the event that the price of wheat fell below the given level.

The Canadian Wheat Board has continued to operate since 1939, and from 1939-43, provided an alternative marketing channel, in the event of unsatisfactory price movements. Since 1943, owing to the wartime emergency, all Canadian wheat has been marketed by the Board. In effect, the pools have continued to function merely as agents for the Board.

On September 27, 1943, three significant changes in Canadian wheat policy were introduced. (12) First of all, all trading on the Winnipeg Exchange was suspended. Secondly, the initial price for Number One Northern, at Fort William, was raised to \$1.25. Finally, all unsold wheat of the 1940-41, 1941-42,

(11) Canada Year Book, 1939, p. 574.

(12) L. A. Skeock, Changes in Canadian Wheat Policy, Canadian Journal of Economics and Political Science.

and 1942-43 was to be purchased by the Board at the closing prices on the Exchange on September 27, 1943.

This policy was introduced as a part of overall wartime control, and was the result of a number of factors. Firstly, transportation and labour difficulties set spot wheat at a premium over futures so that an inordinate spread developed between these two types. Under the program then introduced, the Board assumed all such carrying charges. Secondly, it was necessary to overcome the threat to price control that rapidly rising wheat prices constituted. Also, it was an attempt to help the farmer maintain income; low quotas were keeping the earnings of the farmer at an unduly low level, especially if prices were held down. Finally, it represented an effort to allocate supply in terms of the national policy.

In summary then, this innovation of September, 1943, marked the introduction of complete government control in wheat marketing. Whether the problems of the post war agriculture best can be met with measures short of such compulsion remains to be seen.

The vicissitudes and change in the grain trade are reflected in the changes in organization and policies of the Prairie Wheat Pools and Farmer Grain Companies.

UNITED GRAIN GROWERS LIMITED

This company was first incorporated in 1906 under the Manitoba Companies Act as the Grain Growers Grain Company. In 1911 the company applied for and obtained a special Act of Parliament incorporating the Grain Growers Grain Company Limited. In 1916 it amalgamated with the Alberta Farmers Co-operative Elevator Company and changed its name to United Grain Growers Limited. The Alberta Company was one of three farmers' elevator companies which had been incorporated in Saskatchewan in 1911, Alberta in 1913, and in Manitoba, established as a government line of elevators in 1909-10. In 1912 the Grain Growers Grain Company acquired the elevators of the Manitoba government. (Proceedings p. 7153). Thus the United Grain Growers had, at the time of amalgamation, an elevator system in both Alberta and Manitoba. It has acquired other elevators and extended into Saskatchewan and British Columbia. It now owns 529 country elevators, with a terminal at Vancouver and one at Port Arthur. (Proceedings p. 7143). The terminals are owned by the company but operated by a wholly owned subsidiary, the Grain Growers Terminals Limited organized in 1926 as a joint stock company. (Proceedings p. 7227).

Another wholly owned subsidiary, United Grain Growers Securities Company Limited, incorporated in 1928, acts as insurance agent to handle all the insurance business on the properties of the United Grain Growers and the property and crops of its members and some non-members. (Proceedings p. 7224).

In addition to handling grain, the company also does a large farm supply business in binder twine, coal, flour, feeds, salt, oil and greases and other articles.

Through two wholly owned joint stock subsidiaries, the Public Press Limited, incorporated in 1907, and the Grain Growers Guide, later changed to Country Guide, and incorporated in 1907, the company publishes the Country Guide and conducts a general job printing business.

Two other joint stock subsidiaries, the Grain Growers Export Company, Limited, and the United Livestock Growers Limited, have been inactive for years.

The Grain Growers Grain Company Limited had an authorized capital of \$2,000,000.00 in shares of \$25.00 par value. Holding was limited to farmers and their wives with a limit of forty per person. Voting was on the principle of one man one vote. Authority to distribute patronage was granted but to shareholders only, and only after paying at least eight per cent interest on

shares. In 1915, the Act was amended to permit payment of patronage dividends to non-shareholder patrons as well and the interest rate payable on share capital as a prerequisite to patronage dividends was left to the discretion of the directors.

For purposes of administration, after 1916, the 35,000 members were grouped into 281 locals of sizes varying from 50 to around 200 members each. (Proceedings p. 7214). Each member has one vote in the local to elect a delegate to the annual meeting, and each local is represented by one delegate. The delegates elect four delegates each year for a three year term. There are therefore twelve directors, four of whom are retired each year.

At the same time the capital was increased from two to five million dollars.

With the passage of time, inevitably since no specific provision had been made to keep shares in the hands of farmers, shareholding became partly divorced from farming. To meet this problem, an amendment of 1940-41 made provision for dividing the \$25.00 shares into Class "A" preferred and Class "B" shares. Class "A" are of a par value of \$20.00 redeemable on call for \$24.00, limited as to dividend to 5% non-voting, and limited to 250 shares per person. Class "B" are of a par value of \$5.00, are required to qualify the member for voting, limited to farmers and lessees or owners of farm land, and in numbers to twenty-five per person. Ownership carries the right to participate in patronage dividends. The company has the right to repurchase and must resell this class since it may not hold more than 10% of the total outstanding at any time. (Proceedings p. 7152 and 7160).

The original company attempted at an early date to exercise its right to pay patronage dividends and was expelled from membership in the Winnipeg exchange. The demand was dropped. After 1912, the surplus earnings of the company were absorbed in the acquisition of elevator facilities and hence the question of patronage dividends was not important. (Proceedings p. 7168). From 1925 to 1929, dividend certificates were issued on a patronage basis and all but the last issue were redeemed at one cent per bushel. The last year merged with the beginning of the long period of financial difficulties. (Proceedings p. 7169). In 1940-41, \$200,000.00 was paid as patronage dividend at a rate of one half cent per bushel. Since that time substantial sums have been set aside, but not paid out pending clarification of the tax position.

SASKATCHEWAN CO-OPERATIVE PRODUCERS LIMITED

Brief History of Organization

The Saskatchewan Co-operative Elevator Company was incorporated in 1911 as part of the general movement toward farmers' grain companies in the Prairie Provinces. The provincial government agreed to advance to local associations organized at shipping points 85% of the capital subscribed to build elevators on condition that the subscribing members had paid up 15%. These locals were organized under the Elevator Company. The company retained surpluses for its own purposes, or paid them out as dividends on stock rather than on a patronage basis, although it had power to do the latter.

After the Canadian Wheat Board had marketed the 1919 crop without using the futures market, the farmers pressed for the continuance of the Board, but were not successful. By 1923, the farmers had turned to pooling as an alternative to a government board. (Proceedings p. 6616). The Saskatchewan Wheat Pool was incorporated in 1925 as a co-operative under the Saskatchewan Companies Act with 100,000 shares of \$1.00 stock authorized. This was later increased to 200,000 shares. Shareholding was limited to one share per individual and payment of interest was forbidden. Until 1932 member-

ship involved purchase of a share and signing a marketing contract to deliver all wheat to the association. The contract was not to be operative until one half the wheat acreage of Saskatchewan was under contract. The Pool started business in 1924 with 47,000 members. Membership is now over 100,000.

The contract provided for an advance at the time of delivery of the grain and for a final payment or balance to be paid after meeting costs and setting aside two reserves, the elevator deductions and commercial reserve deductions. These were set at a maximum of two cents per bushel and 1% of the gross sales respectively.

The Pool deducted \$12,188,000.00 as elevator reserves from 1924 to 1928. Commercial reserve deductions amounted to slightly over \$6,500,000.00. (Proceedings p. 6651). In return for these deductions the member received certificates representing his equity in these reserves. From 1925 to 1931, 6% interest was paid on the elevator certificates. This was dropped from 1931 to 1942. In 1943 and 1944, 3% was paid. Previous to 1928, 5% was paid on commercial reserves. (Proceedings p. 6738).

There are sixteen administrative divisions in the province which are further subdivided into ten or eleven subdivisions each. Each subdistrict elects a delegate annually and the delegates in turn elect one of their members as a director to represent the district. The delegates attend the annual meeting and also district meetings with expenses paid, and receive a per diem allowance.

Subsidiaries and outside connections.

1. Saskatchewan Pool Elevators Limited

At first the Pool, as agent, marketed grain delivered by its patrons through established elevator companies. However, it made provision for capital expansion by means of elevator reserves and commercial reserves. In 1925 the Saskatchewan Pool Elevators Limited was incorporated under the Saskatchewan Companies Act with an authorized 10,000 shares at \$10.00 each. This has gradually been increased to 1,500,000 shares (Proceedings p. 6623). The entire amount of the elevator deductions was invested in Saskatchewan Pool Elevators Limited to facilitate purchase or erection of elevator facilities. In 1926 the Company purchased the entire holdings of the Saskatchewan Co-operative Elevator Company Limited including about 450 country elevators; two terminals at Port Arthur and a transfer elevator at Buffalo, N.Y. (Proceedings p. 6614). At present it owns 1,125 country elevators, as well as terminal and transfer elevators.

The parent company holds all the shares of the Elevator Company except sixteen qualifying shares allocated to the Pool directors. These are transferred to new directors automatically. The Elevator Company pays to members only, refunds of excess charges on the basis of the volume of business during the preceding twelve months. From 1932 to 1938, the refunds were paid on the basis of business done during the entire period rather than on a yearly basis. The rates of refund differ as between kinds of grain. (Proceedings p. 6627).

A form of revolving fund is used. The Elevator Company withholds part of the refund and uses it to buy up elevator and commercial reserve certificates from estates of deceased members, from members who have stopped farming, and from members over sixty-five years of age. These certificates are then placed to the credit of the patrons who otherwise would have received cash as refund. By this means the "deadwood" is bought out and reserve certificates are held roughly in accord with current patronage. The scheme differs from the usual revolving fund in that old certificates are not redeemed and replaced by new ones. Rather they are transferred always in the direction of posses-

sion by more active members. The original elevator and commercial reserve fund thus becomes perpetual and new investment by more active members replaces investment by retiring members.

The Elevator Company also charges the customary handling and storage charges of the grain trade and asserts that it has been instrumental in reducing these charges over the years. (Proceedings p. 6629).

Previous to 1932, the members were under contract to the Pool, the original contract having been renewed at the time of expiration. Pool members were released in 1931 from the necessity of dealing only with the Pool, and the Elevator Company adopted the policy of buying grain from Pool members and others making delivery to country elevators. Pooling was not completely abandoned; a small amount of grain was handled on a voluntary pooling basis. The bulk, however, was bought outright. (Proceedings p. 6674). Grain bought was handled at current market prices. After 1937, the Canadian Wheat Board entered into contracts with grain companies, pool and non-pool alike. The Saskatchewan Pool Elevators acted as agent handling grain specifically earmarked by the producers for the Board. Board deliveries were limited on bushelage per acre basis which varied from year to year. The Elevator Company dealt in grain beyond this amount on its own account.

2. Saskatchewan Pool Terminals Limited

This Company, incorporated in 1927 under the Dominion Companies Act with an authorized share capital of 500 shares of \$100.00 denomination, was organized to operate the terminal elevator facilities of Saskatchewan Pool Elevators Limited. One hundred and sixteen shares have been allocated; 100 to the parent company and one each as qualifying shares to the sixteen directors of the parent company. The Board is, therefore, identical with that of the Saskatchewan Co-operative Wheat Producers and with the Pool Elevator Company. Pool Terminals is a member of the Winnipeg Grain Exchange.

Pool Terminals lease the terminal facilities from Pool Elevators and pay rent for them. After deducting operating costs it pays all surpluses to Pool Elevators. It pays no interest or dividend on share capital. (Proceedings p. 6662).

In its export business Pool Elevators buys grain from the Wheat Board and buys from and sells to other companies.

Interprovincial Subsidiaries

Several subsidiaries are owned and operated jointly by the Saskatchewan Wheat Pool and the other Pools.

1. Canadian Co-operative Wheat Producers Limited was incorporated as a joint stock company with the stocks held by the three Pools. It acted as a central selling agency until 1935. Since that time it has functioned as a wheat pool policy organization without commercial activity.

2. Canadian Pool Agencies Limited and Pool Insurance Company are also organized as joint stock companies for the purpose of providing insurance services to the Pools.

Other Subsidiaries

There are three subsidiaries which are not directly concerned with grain marketing. All have joint stock company organization and the stock is owned by the parent company with qualifying shares for the directors, who are the same as for the parent organization.

1. The Saskatchewan Co-operative Livestock Producers Limited, incorporated in 1926, was taken over by the Wheat Pool in 1944, and its charter was amended to permit organization on the pattern of the subsidiaries of the Pool. It operates as a livestock pool distinct from Pool elevators which is the grain marketing medium.

2. Saskatchewan Wheat Pool Construction Company was incorporated in 1929 to provide construction facilities for the Pool organization.

3. Modern Press Limited was incorporated in 1931 to absorb a publishing firm to which the Pool had advanced considerable money to provide a pool publicity outlet. It also does general job printing.

THE ALBERTA WHEAT POOL

The organization of this Pool is in the main similar to that of the Saskatchewan Pool although, because of the narrower range of activities, it is somewhat simpler in structure. It was incorporated in 1923 under the Co-operative Association Act of Alberta, which incorporation was confirmed by the Alberta Co-operative Wheat Producers' Act 1924. There have been subsequent legislative modifications of its charter.

Grower control is provided for by dividing the province into seven areas, each of which contains ten subdistricts individually represented by a delegate to the annual meeting. The seventy delegates elect the seven directors who, unlike their counterparts in the Saskatchewan Pool, are not required to be delegates.

A joint stock company, Alberta Pool Elevators, was created by the Alberta Wheat Pool to construct and purchase elevator facilities in Alberta. Alberta Pool Elevators operated three elevators in 1925-26, forty-two in 1926-27 and now owns 438 country elevators, (Proceedings p. 6898), a terminal elevator in Vancouver, and one at the head of the lakes. The Elevator Company operated the elevators until 1931 when they were leased to the Alberta Wheat Pool which has since operated them itself. All shares of the elevator company except directors qualifying shares are held by the Wheat Pool.

Like the other Pools, the Alberta Wheat Pool has an interest in Pool Agencies Limited, Pool Insurance Limited, and the central selling agency, Canadian Co-operative Wheat Producers Limited. It has no other subsidiaries or interests; nor has it an export department (Proceedings p. 6972).

Membership at first involved signing a marketing agreement which appointed the association sole and exclusive agent, and in effect required the member to market all his wheat through the Pool. The member was also required to hold one share. (Proceedings p. 6890). In the reorganization of 1929, share capital was abolished and monies received for share capital were repaid to members. In 1931, members were relieved of the obligation to market conclusively through the Pool, even though in 1927 the members had signed a new five year contract to be effective from 1928 to 1932 inclusive. From 1931 to 1939 when the Act was amended, there was no method by which a farmer could become a member. (Proceedings p. 6973). The 1939 amendment established a procedure for new memberships. Any grower could become a member by making a written application, if he had not signed a marketing agreement, had delivered 500 bushels of grain to Alberta Pool Elevators from 1935 to the time of making application, and had acquired a certain interest in the elevator or commercial reserves (bylaws). Provision was made in amendments to the bylaws which permitted the Pool to purchase reserve certificates and re-issue them to new members. (Bylaws p. 29).

Thus membership at first involved a written contract or marketing agreement, and purchase of a share. Members had an equity in the commercial and elevator reserves which were collected from 1924 to 1928 inclusive. Share capital was abolished and commercial and elevator deductions were suspended in 1929. Difficulties related to the 1929 overpayment and the collapse of prices forced the release of members from the marketing agreements in 1931. No new membership policy was established until the association was recovering from its financial difficulties toward the end of the 1930's when a modified procedure was adopted.

Capital was first raised by requiring each member to purchase a share of par value of \$1.00. Provision was made in the 1929 reorganization to pay back the money raised on share capital and to finance without share capital. The Pool was given power in both agreements to deduct for elevator reserves two cents per bushel, and for commercial reserves one per cent of the sale price. As with the Saskatchewan Pool, the deductions were actually made from 1924 to 1928 inclusive. The member received a participation certificate. Elevator reserves were earmarked for elevator purposes only. It was intended that deductions would be continued and used to retire earlier deductions. (Proceedings p. 6891). This policy was not carried out. By an amendment to the bylaws, the association agreed to make no deductions for the year 1931 as elevator or commercial reserves, or on account of the 1929 overpayment. (Bylaws p. 16). Interest was paid on elevator reserves from 1926-1929 and on commercial reserves, in 1928 and 1929 (Proceedings p. 6985).

The elevator deductions were used to purchase shares in Alberta Pool Elevators Limited. In addition, loans were made from the commercial reserves to the Elevator Company. Operating capital for the Elevator Company was procured by borrowing on the credit of the subsidiary and the Pool itself. The money was advanced by the chartered banks under an agreement which required that the Pool would maintain a margin of fifteen cents between the market price and the money borrowed for purposes of making the initial payment. The 1929 collapse of prices, following an initial price of \$1.00 per bushel, wiped out the margin. The Government of Alberta, as did the Governments of Saskatchewan and Manitoba, guaranteed the banks for the advances for the initial payment. Alberta Pool losses in 1929 amounted to \$6,429,000.00. Assets of the Alberta Pool and the Elevator Company were mortgaged to the government, which in turn issued bonds, payable in 1951, to the banks. By Chapter 8 of the statutes of Alberta, 1932, it was provided that members could not withdraw any monies from the elevator or commercial reserves pending payment of the Pool debt to the government.

Previous to the season of 1927-28, the Elevator Company paid its earnings to the Pool, which added those earnings to the final payment for the grain of the members. This was paid to members whether they were patrons of the pool elevators or not, in recognition of their investment, through deductions, in the elevator facilities.

An attempt in 1928 to operate without levying elevator handling charges was prevented because some line companies, in localities where pool elevators did not operate, had contracts to handle pool wheat. Had this plan been operated, it would have largely eliminated patronage dividends since initial payments would have been higher while handling costs would have been met out of general revenue. Surplus available for distributions would, therefore, have been reduced by the amount of the handling charges.

No patronage dividend was paid in the difficult years from 1928 to 1941. In the latter year, patronage dividends were re-introduced. Payments were based on the business of 1938 and following years. For 1938 and 1939 payments were in cash. For 1940 payments were partly in cash and partly placed

to reserve. (Proceedings p. 6977). Subsequently, payments were in cash until 1943.

Between 1931 and 1940, the Pool was able to pay interest on the government loan but was unable to redeem elevator or commercial reserve certificates. After 1940, the earnings were used to pay patronage dividends, to pay principal and interest to the government on account of debts, to buy up reserve certificates and to increase operating capital. (Proceedings p. 6986). In so far as reserves are transferred to new members, the Pool is using a modified revolving fund somewhat similar to that of the Saskatchewan Pool.

Under its early policy the Pool made an initial payment to the patron which was considered safe by the management. It was not the market price.

After 1931, the price paid was the market price, except to those who elected to carry on voluntary pooling. The bulk of trading was on a purchase and sale basis. From 1935 until 1942 the Pool could sell on the open market, or through the Wheat Board on a fixed price. From 1943 the Wheat Board became the sole purchaser and the Pool acted, in effect, as an agency of the Board within the floor and ceiling prices set by the Board. Coarse grains were bought under Board Control after 1942. (Proceedings p. 6940 and 6953). The elevator companies operated on a signed agreement renewable annually with the Wheat Board which forbade them buying wheat except as agent for the Board.

THE MANITOBA POOL ELEVATORS

Co-operative wheat marketing in Manitoba has developed a somewhat different organization to those existing in Saskatchewan and Alberta. Impetus to organization was similar in all three provinces but the actual form varied.

The Manitoba Co-operative Wheat Producers, hereinafter called the Wheat Pool, was incorporated by Chapter 130 Statutes of Manitoba 1924. The urge to organization was stimulated by the experience with the government Wheat Board which had marketed the 1919-20 wheat crop. The Manitoba company corresponded to the Alberta Wheat Pool and the Saskatchewan Co-operative Wheat Producers Limited. As in the case of Saskatchewan and Alberta, an elevator company was also established. The Manitoba Pool Elevators Limited, hereinafter termed the Elevator Company, was incorporated by Chapter 113 Statutes of Manitoba 1925.

The principal difference between the Manitoba organization and that in the other two provinces was in regard to the local associations, and their relationship to the Wheat Pool and the Elevator Company. In Manitoba the locals have separate corporate existence and operate on a contract basis with the Elevators Company. A local association was established in each case where the elevator company acquired an elevator. The elevators were leased by the elevator company to the locals which were given the option to purchase them outright.

The local associations sign two contracts with the elevator company. One contract requires the local to purchase the country facilities. The second contract is an operating agreement which appoints the elevator company the manager of the country elevator for the local association. (Proceedings p. 7119)

When first established the locals operated on a contract with producer members. Each member was required to purchase one non-interest bearing \$1.00 share. After 1931 the signed contract requiring delivery was dropped. Voting was on a membership basis. In 1940 by Chapter 8, Statutes of Manitoba, share capital was abolished and the share capital collected declared a membership fund. Membership is limited to grain producers. Each local association is controlled by a board of seven directors elected from among the members.

In their operations the locals advanced an initial payment to the members based on quantity and quality. They also deducted a flat $2\frac{1}{2}$ c per bushel to cover costs. If a surplus resulted it was paid out as a patronage dividend. If a deficit resulted on the basis of the $2\frac{1}{2}$ c deducted it was met out of the general surplus. (Proceedings p. 7020). After 1931 and until 1937 the local associations were prevented from paying a patronage dividend because of the adverse financial position and of the four party agreement.

The elevator company acquired 152 country elevators from 1925-1930. Capital was supplied by the Wheat Pool. An additional 28 country elevators were acquired after 1931, making a total of 180 (Proceedings p. 7016). After 1931 the elevators company acquired two terminal elevators, one at Fort William and one at Port Arthur.

The Manitoba Wheat Pool acted chiefly as a selling agency (Proceedings p. 7055). It had contracts with growers through the local associations which permitted it to make commercial and elevator deductions, for which it issued participation certificates (Proceedings p. 7055). The elevator company had an authorized capital stock of 1,000,000 shares and was to start operations only after 10% of these had been subscribed and 10% of the subscriptions paid up. The Wheat Pool subscribed for the necessary 100,000 shares and paid up \$10,000.00 or the necessary minimum.

The Manitoba co-operative organizations experienced the general difficulties of 1929-30. Only 30 of the local associations were able to meet all of their obligations. Twenty-seven met all obligations except part of depreciation and capital repayments. The remaining 94 showed an operating deficit (Proceedings p. 7023). Overpayment to the growers in face of collapsing prices resulted in government assistance. By Chapter 57, Statutes of Manitoba 1931, the Government of Manitoba guaranteed the credit of the Wheat Pool with the banks. The government was given a first lien on the property of the Wheat Pool and the elevator company. The liability incurred to the government was \$3,400,000.00 while realizable assets amounted to \$2,400,000.00 payable by the locals on leases and purchases of elevators to the elevators company. In 1931 the government took over the entire assets including the country elevators, and shortly thereafter the Manitoba Wheat Pool went into bankruptcy. Since that time the Pool Elevators Company has more or less taken on the role of the Wheat Pool.

The reorganization of 1931 necessitated by the financial difficulties encountered was formalized by a four party agreement among the local associations, the Elevators Company, the Wheat Pool and the Provincial Government. The leases of elevators by the elevators company to the local associations were cancelled. The local associations were required to buy them at an aggregate price of \$2,100,000.00. The purchase money was to be collected by the elevators company from the locals, and held in trust, payable on demand to the government. The government agreed to accept \$2,100,000.00 with interest, in full payment. The whole administration was centralized by turning the management of the locals, including accounts of local associations with their producer members, over to the Elevators Company which, in effect became the managing agency for the local associations and the trustee for the government interest. A special reserve was established to protect the government. The elevator company was authorized to deduct monies normally payable by it to a local association up to 10% of the total capital cost of the country elevator and other properties purchased from the Elevators Company. The fund was to be deposited in the banks to reimburse the government for any loss arising out of the failure of a local to meet its capital obligations to the Elevators Company on behalf of the government.

The experience of the elevator company with regard to working capital serves to illustrate the difficulties of financing some co-operatives and suggests a strong impulsion to reliance on capital supplied internally. From 1925 to 1931 there was very little capital available. The company had a paid up capital of \$10,000.00 and a contingency reserve of \$73,700.00. Working capital was largely borrowed on Wheat Pool guarantee from the banks. The 1931 four party agreement made no provision for working capital. Without the Wheat Pool to guarantee loans, and in the face of the serious financial reverses the banks refused credit. The Provincial government which had replaced the Wheat Pool as the principal creditor advanced \$300,000.00 as a callable loan and postponed payment of its claims against the Elevators Company. When this failed to satisfy the banks the Dominion Government guaranteed the bank loans. These accommodations were later extended (Proceedings p. 7023).

The agreement of 1931 had retained individual accounting as between the elevator company and the local associations. By an amending agreement in 1933 this principle was abandoned in favor of pooling all revenues received by the Elevators Company on behalf of the local associations. The elevator company was empowered and required to meet all expenses of operation, to pay the government all principal and interest due to the elevator company on government account, to make direct contributions to the special reserve, and to retain the balance until a working capital reserve of \$400,000.00 had been accumulated. Thus the obligation to the government was centralized and responsibility for its payment taken from the local associations who had become the direct owners of the facilities. At the same time provision was made for raising necessary working capital internally. (Proceedings p. 7025).

The 1933 agreement prevented the payment of any patronage dividend by the local association to its members since any surplus on behalf of the trading of any local was withheld by the Elevators Company and used as required by the agreement. Since the financial position had improved, a new agreement in 1936 provided that local associations, on whose account the elevator company had set aside in the special reserve 10% of the capital cost of the elevator and other facilities owned by the local, would in future have set aside only 50% of the net surplus, the remainder being available for patronage dividend. The remaining locals which had not reached this stage were to have 50% of the net surplus placed in the special reserve, 25% in working capital and 25% available for patronage dividends. (Proceedings p. 7026). At the same time the elevator company began refunding money to those who had made the earliest contributions. This revolving fund plan has been continued ever since.

The Manitoba co-operative wheat marketing organizations have not extended their operations horizontally to the same extent as in Saskatchewan. Of some interest is the organization of a co-operative seed cleaning and marketing program with ten locals. This development is not of great significance for the present investigation.

The pattern of co-operative marketing of grain in Manitoba differs considerably from that in Saskatchewan and Alberta. But with the passage of time, and subject to the same severe economic pressures the difference was diminished by a process of reorganizations and adaptations. The original organization involving the Wheat Pool, the elevator company and the local autonomous associations involved membership of the producers in the locals on a contract basis. Each local was in effect a small pool delivering grain as an individual unit to the elevator company as the instrument of the Wheat Pool. The latter organization had as members the local associations and accounted to these association members for the surplus derived from the sale of their products.

The economic difficulties following 1929 resulted in altered relationships. Government assistance was made conditional upon a heavier responsibility

assumed by the locals. Ownership of the country elevators passed to the locals. Financial difficulty resulted in the bankruptcy of the Wheat Pool. Failure of the locals to meet their obligations to the government indirectly through the elevators company forced a greater centralization of control and management in the hands of the elevators company as the surviving central body. Contract pooling was abandoned as a major trading policy and the payment of an initial payment equivalent to the market price instead of an arbitrary initial payment became the practice. Patronage dividends were discontinued during the period of stress, and the pooling of costs for the entire producer group, rather than specifically for each local, was established. Price policy continued to be directly based on market prices even with the return of prosperity. Patronage dividends were resumed, and a revolving capital plan replaced share capital. Reliance on external borrowings and government assistance has gradually been replaced by internal financing under control of the Elevators Company. With the shift to a market price policy and the termination of compulsory deliveries by members the peculiar deduction policy of $2\frac{1}{2}$ c per bushel was replaced by the standardized charges of the grain trade. The co-operative organization as well as the financing plan has been simplified and rendered more flexible in the more centralized form.

SECTION II

DAIRY CO-OPERATIVES

Co-operative associations in the dairy industry illustrate a great variety of methods of securing members. They exhibit, as well, a great variety of forms of structural organization. Some of the associations have a long history. They were formed when co-operative legislation in Canada was much less adequate than it is at present. Others have been organized more recently. Changing and varying methods of organization and operation are well illustrated. The differing practices of associations primarily engaged in the distribution of fluid milk and those concerned more largely with processing is particularly interesting.

Membership Qualifications

The general trend in member relationships with the Associations has been away from formal written agreements and considerable share capital requirements in the direction of patronage membership with a nominal membership fee. At present many varieties of requirements exist.

Definite membership or marketing contracts are required by the Fraser Valley Milk Producers which also requires each member to subscribe to ten shares and to be a milk producing resident of the Fraser Valley. The Central Alberta Dairy Pool requires payment of a \$1.00 membership fee and the signing of a marketing contract. The Co-operative Milk Company Calgary requires the member to sign a standard marketing contract. The Morrell Creamery Co-operative Association Limited of Prince Edward Island requires purchase of a share and signing of a contract. In a few cases there are non-financial requirements such as the delivery during a given period of time of a certain amount of milk. Of seventy-three associations and companies examined, twenty-four enter into written contracts with their members.

The trend away from a contractual basis is illustrated by the Northern Alberta Dairy Pool which formerly required a standard marketing agreement. By 1936 less attention was paid to this requirement and an application form was introduced as sufficient to indicate membership. In 1939 non-contractual

associate membership was established. Under this arrangement shippers are classed as associate members and become full members with voting privileges when a membership fee is deducted from the proceeds of the sale of the product shipped. Similarly, the Southern Alberta Dairy Pool abandoned contract pooling in 1936, and now requires only delivery of some of the product and the payment, through deductions, of a \$1.00 membership fee. The Manitoba Co-operative Dairies is substantially the same. The Dairy Co-operative Marketing Association of Saskatoon requires a \$10.00 membership fee from fluid milk shippers and a \$3.00 fee from cheese milk and cream shippers. Shippers in the latter group are classified as associate members until the membership fee has been deducted. They have credited to them any allocations in the same proportions as other members but are denied any rights to the allocations until they become members by payment of the fee. The Harwood Co-operative Creamery of Ontario classified any cream shipper as a member. The Central Alberta Dairy Pool, while requiring a marketing contract at present, is considering changing to the non-contract basis.

Generally speaking the contract is more important in Quebec and the Prairie Provinces, although declining in significance in the latter area. In Ontario and the Maritimes where many of the associations are or formerly were joint stock companies of long standing with a few co-operative characteristics such as the payment of patronage dividends, the contract is not extensively used.

Structural Organization

The material surveyed indicates that co-operatives operate in several forms. Many are organized as single units, independent of any control by other organizations and without any control over subsidiaries. Some operate as federations and are controlled by their member associations. Others control subsidiaries. Still others share with similar associations in the control of federations.

The Cariboo Farmers Co-operative Association of B.C. is an example of a single unit, single plant type. On the other hand, the Dairy Co-operative Marketing Association of Saskatoon operates as a unit but owns eight creameries and five cheese factories in the Saskatoon, Prince Albert and Melfort areas. The members control the Association by attendance at the annual meeting. The Association operates three distinct pool sections for milk shippers, cream shippers and cheese milk shippers respectively. Each section is represented on the Board of Directors (Proceedings p. 1563-4). The Manitoba Co-operative Dairies Limited also operates as a single unit but divides the province into three districts which elect nine delegates per district to attend the annual meeting. The co-operative is controlled by six directors, two from each district which are elected at district meeting (Bylaws). The Central Alberta Dairy Pool has a somewhat similar organization. For purposes of representation, however, there are eight districts which may be further divided into a maximum of seven sub-districts, each of which is entitled to one delegate for each one hundred members. Every sub-district is entitled to one delegate as a minimum. (Articles). The Fraser Valley Milk Producers Association of British Columbia is another example of a single unit operating over a wide territory with a large membership. Member control is maintained through direct voting for four members of the Board of seven Directors each year. Voting is by ballot at polling places throughout the territory. Members may attend the annual meeting personally. Contact throughout the year between members and Board is maintained by local meetings attended by Board members of twenty-two local membership groups.

This Association owns and operates a utility plant at Sardis, a milk evaporating plant at Abbotsford, a fluid milk plant at Vancouver and an ice and ice cream plant also in Vancouver. These plants appear to be owned as part of the general assets of the Association, and not as controlled companies. Quite early in its history the Association purchased a number of milk distributing concerns operating in Vancouver.

Of special interest was the merging of the fluid milk department of the Association in 1931 with those of several other large distributing firms to form the Associated Dairies Limited. The Association held 53% of the stock. In 1943, it purchased the remaining 47% and the Associated Dairies became the fluid milk department of the Association.

Co-operatives in the milk industry are usually organized on the unit principle. However, the Manitoba Co-operative Cheese Producers is a central selling agency the membership of which consists of a number of local co-operative cheese factories. Membership in the Central is open to any factory engaged in the manufacture or processing of cheese or dairy products subject to acceptance of the Board of Directors (Proceedings p. 2232). However, the Memorandum of Agreement and general bylaws filed indicate that the individual producers are members also of the locals of the Central Association (sec. 4, sub-sec. 1). The Central has business agreements with the locals.

The Brant Co-operative Dairy Company Ltd. of Brantford and the Battersea Cheese Factory (unincorporated) of Battersea, Ontario, report that they are controlled by member associations.

Commercial Operation and Financing

The Fraser Valley Milk Producers Association was organized in 1913 with an authorized capital of \$250,000.00 in \$10.00 shares. At the start an attempt was made to have member investment roughly proportional to member patronage by asking each member to subscribe to shares in proportion to milk shipped. The member paid 5% in cash on application and gave a note for the remainder. The Association deducted 5% of the subscription each month from the returns from the members' shipments. When the note was paid up the member received a share certificate which was to be redeemed at the request of the member if he ceased to deliver to the association. In 1919, in order to meet heavy capital requirements for expansion, the authorized capital was increased to \$1,000,000.00, and in 1933 unlimited capital at \$1.00 per share was authorized. The revolving fund plan was established to prevent the burden of redemption of retiring members' shares from becoming too heavy. (Proceedings p. 166.)

This was accomplished by exchanging for each member's holdings of share certificates a new issue maturing in from one to ten years "to keep the capital as proportionately as possible in the hands of the dairy farmers served by the association". (Proceedings p. 167). Funds to meet payments revolving out are raised by monthly deductions for which the member receives a certificate which will in turn be redeemed in ten years. New members are required to subscribe for 10 shares to be paid for in cash or deductions. Interest is authorized at 6%. A bonded indebtedness, 30% of which is held by non-members is being retired by similar deductions and replaced by certificates in the hands of members which also revolve on a ten year basis.

Thus the Fraser Valley Milk Producers have eliminated share capital and are retiring bonded indebtedness by establishing a ten year revolving fund raised by deductions from the sale of the members' milk, for which the member receives certificates which indicate that his interest in the revolving fund and the association is proportional to his patronage.

In its relationships with its members the Association operates on a monthly settlement basis. Two cheques are sent to the shipper. The first is an estimated return and the second is a final payment called the Pooled Settling Rate arrived at by deducting costs of operation of the pool and returning the remainder to the members in accordance with deliveries. No further payment is made. Any surplus available or any deficit is handled in the same way, by carrying it forward into the accounts of January of the following year. Thus no annual patronage dividend is declared although the monthly pooled settling rate is substantially of the same character but on a shorter time period.

All milk is pooled, regardless of its ultimate disposal, whether as fluid milk, ice cream, powdered milk, butter, or cheese. Since a relatively high proportion of the members are from the more remote areas, a higher proportion of the milk delivered must be disposed of through less lucrative channels such as butter and cheese and powdered milk, than is the case with private dairies. Average returns tend to be lower. During 1944 members received an average return of \$2.47 per hundred pounds of milk as contrasted with \$2.70 to those who shipped to private companies (Proceedings p. 172). Pooling tends to favor the more remote shipper at the expense of those situated near the market. Member loyalty has been strained. Unsuccessful attempts have been made to overcome the problem (Proceedings p. 172). During the war years, the Association has of necessity operated within the price spreads allowed by the Wartime Prices and Trade Board.

The Manitoba Co-operative Dairies Limited was incorporated in 1920 under the Manitoba Co-operative Associations Act. Operations were started in 1921 when a butter making plant was purchased in Winnipeg. Plants were taken over in 1927 at Brandon, 1929 at Dauphin, and 1943 at Glenella and Erickson. Annual butter production reaches 2,000,000 pounds which accounts for 95% of the value of all products. Ice cream, cream and buttermilk are also marketed. The Association also markets a small quantity of poultry and eggs for its patrons.

Produce is accepted from any shipper. Shippers become members through allocations of surplus applied to the purchase of a \$1.00 share. Originally the authorized capital was \$500,000.00 in denominations of \$25.00. The \$1.00 share was adopted later. The Association has 11,000 members with a paid up or allocated capital of \$121,000.00.

The patron is credited with deliveries of butter fat on a quantity and quality basis. An initial payment equivalent to current market price is made. Surplus is allocated in relation to record of deliveries. Between 1921 and 1931 the Association operated with surpluses. \$30,200.00 was set aside as unallocated reserves; \$100,000.00 was allocated to patrons, of which \$60,000.00 was paid out in cash and \$40,000.00 retained for working capital purposes. Seven per cent interest was paid on share capital subscribed during the period.

Losses were incurred from 1931-1941 as a result of which no further allocations were made, and interest payments were discontinued. These losses were first met by using the \$30,000.00 unallocated reserve and later by reliance on part of the allocated reserves and by bank borrowing. (Proceedings p. 2060).

With the reappearance of surpluses in 1940 and subsequent years interest payments have not been re-established. Fear of income tax demands seems to have been a factor in this connection. (Proceedings p. 2060).

The Co-operative Milk Company of Calgary developed out of an unincorporated group of milk producers which acted as a collective bargaining agency for producers delivering milk to the Union Milk Company and the Producers and Consumers Milk Company in the early 1920's. Failure to achieve desired results led to the decision to enter the fluid milk distribution field. A small plant in Calgary was purchased for approximately \$7,000. Capital was sup-

plied by producer loans. (Proceedings p. 577). Incorporation as a co-operative was undertaken in 1929 under the title Calgary and District Milk Producers Association. The present title was adopted at the time of a reorganization in 1942.

The Company entered into a joint plant venture with the Southern Alberta Dairy Pool. The Associations portion of the capital was raised by the Company borrowing \$112,000.00 from the Royal Bank on a Provincial Government guarantee, under the Co-operative Marketing Association Guarantee Act of 1929. The Associations were required to furnish fifteen per cent of capital requirements before the government loan was available. The Company procured this capital by selling the original plant and by loans from members. (Proceedings p. 579). Six per cent interest was paid on the government loan. By 1939 this debt had been reduced from \$112,000.00 to \$38,865.00, and by 1944 it was down to \$24,000.00. About \$6,000.00 was raised by the sale of \$5.00 preferred shares with 7% interest to members of organized labor groups in Calgary.

In 1937 the Company branched into the ice cream business. It also delivers surplus milk to the Southern Alberta Dairy Pool for which it receives butter in return.

The Association was empowered by the original contract to deduct 2c (later changed to 5) per hundred pounds of milk delivered and 6% of the value in the case of any other commodities. For these deductions the members received reserve share certificates in proportion to deliveries to the co-operative. They were non-interest bearing and were redeemable at the discretion of the Board of Directors with a fifteen year maximum. The Association considered them to be loan capital. (Proceedings p. 562). The Board had authority to pay dividends on these if considered advisable. The proceeds of the deductions were used for reserves, industrial expansion, and retirement of loans.

The contract with members also authorized the co-operative to dispose of surpluses by a cash patronage dividend or by a patronage distribution of participation certificates or by both methods. Because of financial difficulties incurred in a competitive price war in 1929 and 1930, and of retirement of bank and member loans, no surplus distributions were made during the first eleven years.

To meet these early difficulties the government advanced \$14,500.00 from the Wheat Board surplus fund in 1931. \$10,000.00 of this has since been repaid. The Company also resorted to a special deduction, not included in the contract but authorized by the members. This ranged from 4% to 10% of total returns, and \$12,391.05 was deducted in 1930 and 1931. Later the members cancelled any obligation on the part of the Company to repay this special deduction.

From 1933 the milk industry was placed under the supervision of the Board of Public Utility Commissioners which eventually established minimum prices to the consumer and producer. The milk companies therefore operate within this spread.

In 1940 the arrangement with the Southern Alberta Dairy Pool was terminated and the properties divided. Each organization entered into separate agreements with the government regarding its share of the outstanding indebtedness.

The financial structure was reorganized in 1942. All reserve share certificates were called in and replaced by a new Series "A" Reserve Share Certificates, which were to be retired over a ten year period. Three per cent interest was paid on these certificates in recognition that some of their holders were not active. Funds to meet these obligations were raised by continuing the deductions from current receipts against which Series "B" Reserve Share Certificates were issued. These will also revolve on a ten year basis, although it is the

intention to reduce the revolving period "as fast as possible to take care of the members who are perhaps retiring". (Proceedings p. 601).

An undistributed surplus of \$20,000.00 was allocated and Series "A" non-interest bearing participation certificates were issued to the members. Surplus allocation subsequent to 1942 is represented by Series "B" participation certificates. The money is used to revolve out the oldest Series "A" participation certificates and to retire bank loans. Depreciation and bad debt reserves are not allocated. A small surplus is carried unallocated from one year to the next.

The Dairy Co-operative Marketing Association Ltd., Saskatoon, was incorporated in 1927, under the Saskatchewan Co-operative Marketing Associations Act, by a group of farmers in the Saskatoon district, with the purpose of marketing fluid milk for producers in the region. It later expended its operations to the production and sale of butter, cheese, and dried milk powder. In 1936 it purchased the Leroy Cheese Factory, Leroy, Saskatchewan; in 1937 it purchased the Hillcrest Creameries, with plants at Biggar and Kamsack; in 1940 it purchased Prince Albert Creameries and Rosthern Creameries, with plants at Prince Albert, Spiers, Parkside and Debden. In 1943 the Young Creamery, at Young, was also purchased. (Information supplied by the Association).

The Association secures its capital by means of membership fees and by retention of surpluses. Milk shippers pay a \$10.00 fee and cream and cheese milk shippers pay a \$3.00 fee. All surpluses are allocated, but the membership fee is not. There is no share capital. The member's interest resulting from the allocations is entered in a pass book. The Association holds that the sum of pass book entries represents the net worth of the Association. (Proceedings, p. 1567).

Until such time as the Association had accumulated sufficient capital for its purposes, no distribution of surpluses was made. In addition to capital required for plant and equipment, the Association retains surpluses in order to be able to make loans to members when such loans are needed. The member is permitted to borrow up to 50% of the amount credited to him in his pass book. No interest is charged on these loans. Nor is interest paid to the members on funds returned from surplus. This gives the Association interest free working and fixed capital. Sufficient reserves are retained to provide working capital to carry the member's product from low price to higher price periods.

Having accumulated capital considered necessary, the Association in 1936 adopted a revolving capital fund plan. Milk shippers were placed on an eight year revolving plan and cream, and cheese milk shippers were placed on a six year plan. No year has been missed since that time. From 1927 to 1938 the Association credited \$194,856.88 to its members. By 1941 this member equity had reached \$384,209 and by 1944 the unofficial figure given was \$801,000 (Proceedings p. 1657). Amounts revolved out reflect the smaller surpluses in the earlier years. In 1940, \$33,102.11 was paid out; 1941, \$16,284.91; 1942, \$36,142.68; 1943, \$21,860.72; figures for 1944 are not available. The much larger surpluses of more recent years should mean greatly increased repayments in future.

The Association generally pays the equivalent of the current market price as an initial payment. However, the initial payment may be influenced by the amounts required for meeting revolving fund payments. (Proceedings p. 1652). The Association disclaims using initial payment policy as a method of raising capital for expansion purposes (Proceedings, p. 1653).

The Northern Alberta Dairy Pool, incorporated in 1928, developed out of the failure of the Alberta Co-operative Dairy Pool, incorporated in 1924, to achieve, through collective bargaining on milk prices, the results desired by the producers. The new organization was set up with the intention of proc-

essing as well as distributing fluid milk. In 1928 a creamery was constructed in Edmonton. Creamery equipment was purchased from the Alberta Co-operative Dairy Producers Limited. In 1929, a milk plant was established also in Edmonton. Milk distribution was commenced in 1930. In 1932, the plant and equipment of the Wetaskiwin Dairy Pool was purchased. In 1936, a creamery was purchased at Sedgewick from a private company and a cheese factory was purchased at Thorxby. In 1928, the Pool built a creamery at Andrew. In 1939, the Edgerton Cream Company Ltd. was purchased. In 1942, a cold storage plant was constructed in Vancouver. In 1944 a creamery was purchased at Bonnyville and eighteen dairies and creameries were purchased from Burns and Company.

Government assistance was important. In 1929 the organization borrowed \$200,000 on a government guarantee and ten of the Burns plants were purchased on a further guaranteed loan of \$300,000.00. To date, \$200,000 has been repaid (Proceedings p. 960). Capital is also acquired by retention of surpluses which are allocated on a patronage basis, part of which may be paid out in cash as a "divi". Reserve share certificates on a six year revolving plan are issued to members. There is no share capital. The member's interest in the association is in the proportion which his holdings of reserve share certificates bears to the total outstanding. Therefore, member investment tends to be proportional to member patronage. Interest is not paid on the reserve share certificates.

The association does not follow the single pool plan of the Fraser Valley Milk Producers. Rather, it operates three distinct pools for fluid milk shippers, cheese milk shippers, and cream shippers. Initial payment for fluid milk is usually the minimum set by the Board of Public Utility Commissioners. Cream Shippers usually receive one cent less than current market price.

The Southern Alberta Dairy Pool, incorporated in 1928, was associated with the Co-operative Milk Company of Calgary, to acquire dairy facilities. For this purpose, it borrowed, under government guarantee, authorized by the Co-operative Marketing Guarantee Act, 1929, a sum of \$77,400. In 1940 the joint arrangement with the Co-operative Milk Company was cancelled and the properties divided. The Association has no share capital nor does it deduct from the proceeds of sale. However, it finances by withholding all or part of the surplus for which the member receives participation certificates, indicating allocation on a patronage basis. Due to serious losses from 1935 to 1938 the Association borrowed \$10,000 from the government. It also passed up allocation and the payment of "divis" from 1939 to 1943, although surpluses were apparent in those years.

The Central Alberta Dairy Pool was incorporated in 1924, through the efforts of cream producers in the Eclipse local of the U.F.A., and entered into a profit sharing agreement with the Meadow Creamery at Alix, Alberta. In 1929, having developed financial strength, and with government assistance under the Co-operative Marketing Association Guarantee Act, the Association entered the processing field by purchasing the Meadow Creamery. In 1935, the Acme Creamery was purchased. This was later sold to the Southern Alberta Dairy Pool, as it was in the area allotted to the latter organization. In 1936 the Association built a condensary at Red Deer. In 1941 a creamery was purchased from Central Creameries Limited at Red Deer. In 1942 creameries were purchased at Delburne, Elnora, Stettler, Ponoka, and Bentley. In 1944 creameries were purchased at New Norway, Edberg, Olds, and Eckville. It now operates 28 creameries.

Government assistance has been provided in the form of a provincial guarantee of \$38,592.00 for the purchase of the Meadow Creamery, and of a Dominion subsidy of 30% of the cost of a cold storage plant under construction at

Red Deer. No other government financial assistance has been received. (Proceedings p. 970). Up to 1937 the Association raised capital by deducting part of the proceeds from the sale of the product. The shipper received Participating Equity Certificates on a patronage basis. After 1937 deductions were discontinued and earlier issues were redeemed. Three years are currently outstanding. Capital is also raised by withholding surplus. After allocation, part is paid in cash and part, represented by Participation Certificates, revolving on a seven year basis, is retained. It is intended to shorten the revolving period to six years by 1945.

The Association maintains several reserves as follows: reserve for depreciation and bad debts, reserve against price decline on floor stocks of condensed milk, reserve against decline of inventory value of butter, and general reserve. The special condensed milk reserve was set up as a result of losses incurred on condensed milk in a price war in 1939. The butter reserve was established when butter prices increased in 1939 or 1940 on the assumption of an anticipated decline. (Proceedings p. 974). These reserves are set aside before allocation of surplus. (Brief p. 8).

Initial price for cream appears to be on a competitive basis. (Proceedings p. 989). Final payment on a pooling basis by product and grade are authorized. (Memorandum of Association Clause 3, Sec. 17). The association handles eggs, as well as cream delivered by members. Separate accounts, or in effect separate pools, are maintained for each product.

The Okanagan Valley Co-operative Creamery Association was organized in 1925. It rented its plant and equipment from Burns and Co. In 1936 it purchased these assets by acquiring for a sum of \$100,000.00, 100 shares in a holding company established for the purpose of effecting the transfer of ownership from Burns and Co. Limited. The balance of the shares were purchased in 1945. In 1944, a milk and ice cream plant were acquired from private interests in Vernon.

The initial payment to members corresponds to the market price. Surpluses after setting aside certain reserves are allocated on a patronage basis and are partly paid in cash and partly represented by revolving redeemable \$1.00 share certificates. No issues have been redeemed to date but it is intended that they shall be when the association is cleared of indebtedness. Each member is required to subscribe for five \$1.00 shares. Share capital is not interest bearing. The association contemplates selling \$50,000.00 worth of bonds to members. This capital is required to take over two creamery plants owned by the Okanagan Creamery Company. (Proceedings p. 707). It is intended that the bonds will be retired over a ten year period, presumably by means of the revolving fund (Proceedings p. 710).

La Co-operative du Madawaska Ltee of Edmundston, N.B. was organized in 1938 by persons furnishing cream to a creamery operated by the Provincial Department of Agriculture. This creamery became the property of the association. The co-operative has branched into grain grinding, feed mixing, farm mutual insurance and other ventures.

Shares are sold without limit to members for \$50.00. Interest is paid at 4% on the paid up portion. Shares are paid for either by deductions or by withholding part of the patronage dividend. Cream receipts are pooled and accounted for separate from the other activities of the co-operative.

Patronage dividend to shipper-members is twice as large as that paid to affiliate members. These latter are shippers whose accumulation of share capital out of surplus allocation has not reached the value of the share.

The Manitoba Co-operative Cheese Producers is a Central Selling Agency for 21 co-operative cheese factories in Manitoba.

The locals are organized on a share capital basis with \$10.00 shares. Most locals do not pay interest on shares. Shares are purchased either for cash or by deductions. Expansion is financed by the sale of additional shares. Manufacturing costs are met by a flat charge, usually 3c per pound. Surplus is allocated to the shippers in proportion to milk deliveries.

The central was organized in 1941. It has no capital structure (Proceedings p. 2232). The locals pay a membership fee of \$1.00. To meet its expenses for cold storage and selling, the central deducts approximately one quarter cent per pound. The small surplus is allocated to the member locals on a patronage basis. Allocated funds have not been distributed to date. The central is building up working capital. It is anticipated that distribution of surplus will commence in 1945.

Financial structure and commercial operations of many of the dairy companies indicate wide variations in practice.

The Midale Co-operative Creamery Association Limited of Saskatchewan has \$10.00 share capital, non-interest bearing at present, but formerly paid 6% to 8%, limited to 25 shares per individual. They are not revolving. Patronage dividends are paid to members only. Expansion is financed through increased reserves and by the sale of additional shares. Statutory reserves are not allocated. The organization buys from and sells to members and non-members.

The Petitcodiac Cheese and Butter Manufacturing Association requires that each member purchase one or more \$20.00 shares bearing interest at 6%. Members and non-member patrons deal on the same terms and receive patronage dividends at the same rate.

The Capital Co-operative Limited of Fredericton was reorganized on a co-operative basis in 1944. Statutory reserves are unallocated. Each member is required to subscribe to five \$5.00 shares which bear 4% interest. These are not revolving. The co-operative sells supplies to members and non-members but claims to handle members' produce on consignment. It manufactures butter and ice cream and dresses poultry and grades eggs. It sets aside as reserve up to 10% of the gross sales, and for a special education fund up to an additional 1% of the gross sales. Surpluses are allocated to members and "potential" members alike. The member's portion must be placed against the five qualifying shares until fully paid up. Beyond this the allocated surplus may be applied to additional share capital at the patron's request. The share capital does not revolve, but the allocated surplus not applied to share capital is placed to reserve and is to revolve in five years.

The Cape Breton Dairymen's Co-operative Society Ltd. finances by sale of 5% fixed interest bearing \$25.00 shares. Each member must own one share and is limited to fifty. It also relies on individual loans from members, and loans from banks and credit unions. In its operations it buys from members only. Losses have prevented payment of patronage dividends. Surpluses since 1941 have been used to pay off accumulated debts.

The Morell Creamery Co-operative Association Ltd. of Prince Edward Island differs from most co-operatives by allocating statutory reserves. Members are required to purchase one 4% fixed interest bearing \$5.00 share with a limit of one hundred per individual. Share capital does not revolve. The association borrows from credit unions. It sells to and buys from members and non-members alike. Allocated surpluses are applied to share capital presumably until the one required for membership has been paid for.

The Dunk River Dairying Company has some co-operative features. Shareholding is not compulsory but is limited to three 7%, \$10.00 shares per individual. Patrons are paid each month what it is assumed the butter will sell for, less costs. If a surplus appears it is carried into the following month and distributed as part of the price paid for current deliveries.

The Mount Elgin Products Company Ltd. of Ontario appears to be a joint stock company paying 5% interest on shares but having no shareholding requirement. Patronage dividends are paid equally to all patrons.

Another Ontario association, the New Dundee Co-operative Creamery Ltd. presents certain peculiar features. Each member must hold one share but is limited to one only. Shares do not carry interest. The surplus is allocated to patrons and paid out in cash unless it is less than 1% of gross receipts when it may be deferred. Patronage dividend is paid twice each year. A very high percentage of business is with non-members.

The Midland Cheese and Butter Manufacturing Company Limited has share capital with a variable interest rate. Members are not required to hold shares and are limited to five each. Patronage dividend is paid to members and non-members alike. Shareholders get a small extra bonus based on patronage and limited to \$2.50 per share.

The Elma Cheese and Butter Manufacturing Company Ltd. of Ontario has adopted an unusual device to pay a return on capital and at the same time make it conditional on patronage. Patronage dividend is paid to members and non-members alike, but shareholders are charged less, by a certain amount per share, as a manufacturing charge than are non-investors. To get a return on capital, the investor must therefore also be a patron.

The Cassel Cheese and Butter Manufacturing Association, Ontario, likewise relates the return on capital to patronage by paying 10c per share for each 1000 pounds of milk delivered by the patron throughout the year. There is a maximum limit.

The North Star Co-operative Creamery Association Limited of Manitoba requires the holding of one \$10.00 share at 5% fixed interest for membership. Holdings are limited to five per cent of the total by one individual. Surpluses are allocated to members and non-members alike. Patronage dividend is paid, in cash only, to all patrons.

SECTION III

CO-OPERATIVE LIVESTOCK MARKETING IN CANADA

Co-operative livestock marketing in Canada has developed most extensively in the Prairie Provinces. In Ontario, Quebec and the Maritimes the development has been less marked.

Previous to the organization of co-operative livestock marketing in Alberta, producers were principally dependent upon the local drover who purchased either on his own behalf or as a representative of large buyers such as the packing plants. Wide margins were necessary to guarantee the risks assumed by the drover and the return to the producer was necessarily small. Wide price variations and fluctuations were prevalent in farm prices, and the spread between the returns to the producer and prices in the livestock yards was very considerable. (Proceedings p. 802).

The first local co-operative shipping association appears to have been organized about 1907 (Proceedings p. 802) and in the next few years more of these locals organized around railway shipping points were established. In 1914 the Alberta Co-operative Elevator Company, established in the previous year, set up a livestock shipping department through which a group of producers at a given shipping point could load a car jointly and consign it to the company at the Edmonton or Calgary livestock yards. The company would then act as the selling agent for the local group. After the amalgamation, in 1917, of the Alberta Farmers' Co-operative Elevator Company with the

Grain Growers Grain Company, to form the United Grain Growers, activities of this centralized selling agency as a department of the new company were vigorously pushed. The Grain Growers Grain Company had set up a livestock department in 1916, entering the stockyards at St. Boniface (H.A. Patton — Grain Growers Co-operation in Western Canada, Cambridge 1928, p. 157). Upon amalgamation the two livestock departments were combined; the departments were maintained at the St. Boniface and Calgary markets, and offices opened at Edmonton, Prince Albert and Moose Jaw (Mackintosh — Agricultural Co-operation in Western Canada, p. 61, Jackson Press, Kingston—1924). In 1924 the livestock department was organized as a subsidiary called the United Livestock Growers Limited. This company ceased operations and co-operative livestock marketing in Alberta was taken over by the Alberta Livestock Producers Limited which was formed as a result of the introduction of contract pooling in co-operative organizations in 1923. (Proceedings p. 803).

The Alberta Co-operative Livestock Producers Limited having become involved in financial difficulties through guarantees to local shipping associations went into bankruptcy in 1932. (Proceedings p. 804). Some local associations also failed but others continued from 1932 to 1941 to operate as assembly and shipping organizations. Central selling was abandoned and sales were made through commission merchants in Edmonton and Calgary. In 1941 central selling was re-established with the incorporation of the Alberta Livestock Co-operative Limited (Proceedings p. 804) under the Co-operative Marketing Associations Act. At present co-operatives market approximately forty per cent of the hogs marketed in Alberta. About five per cent is handled by small co-operatives not associated with the Alberta Livestock Co-operative Limited and thirty-five per cent by this association. (Proceedings p. 828).

Co-operative mortality was high in the industry in the early thirties when it is estimated that about half of the livestock marketing associations went into bankruptcy or disappeared temporarily as a result of the collapse of farm prices.

Organization of the Central.

The membership is entirely composed of local co-operative livestock associations and their affiliates. Control of the central organization is maintained through delegates. Each local is entitled to one delegate for each 250 members with a maximum of three from a local. Locals pay a membership fee of \$5.00 per delegate. There are three affiliate members, the U.F.A. Central Co-operative Association Limited, the United Grain Growers Limited, and the Alberta Wheat Pool. The Board of Directors has ten members, three of whom are named by the affiliate members. The affiliates were included to take advantage of experience and because of loans made by the affiliates to the associations at its inception. (Proceedings p. 816). Each affiliate appoints one director while the delegates from the local association elect the remaining seven directors. (Articles of Association).

The contractual relationships between the locals and the Central Association are contained in a marketing agreement. The local agrees to consign all livestock to the central which is appointed exclusive agent. The central agrees to sell the livestock and to return the proceeds to the member less costs and \$1.00 per car for a commercial reserve for which the member association receives a reserve share certificate at the end of the year.

Commercial Operations and Financing

The association has no capital stock. Funds are procured by the \$5.00 membership fees for each delegate from the locals and \$15.00 from each affiliate, and from the commercial reserve deductions of \$1.00 per car. \$16,977.75 had

been collected for commercial reserves by 1944. This fund has been placed on a three year revolving basis. To assist the association to start business, loans were made by the three affiliates and five local associations. These were all paid back from the proceeds of the first two years' operations.

Certain handling and selling charges are also assessed. Any surplus from these sources is allocated to the members after deducting two reserves, an educational reserve and an operating reserve. These reserves are considered the property of the member associations which receive certificates showing their equity in these reserves. None of these has as yet been redeemed.

Local Associations.

There are forty-four local associations with approximately 20,000 members. The Grande Prairie Co-operative Livestock Marketing Association Limited may be taken as reasonably typical.

This association began operating as an unincorporated group of producers about 1918. It was replaced by the livestock department of the United Grain Growers Limited from 1922-1926 when the association was incorporated under the Co-operative Marketing Association's Act. The territory covered has thirteen shipping points in the Peace River country. For administrative purposes the area is divided into five districts, each of which elects one director at the annual meeting. Each member has one vote.

The members sign a one year marketing agreement as the sole membership requirement. The member agrees to market livestock through the association which, in turn, agrees to pay over to the member the net amount less the proportionate share of the cost of handling each kind of livestock, and a sum not to exceed one per cent of the gross selling price as a commercial reserve. A previous membership fee of \$2.50 was dropped. The association did, in fact, deduct one half of one per cent of the gross selling price for a time but discontinued this practice when sufficient capital was available.

The system of marketing is roughly as follows. The producer delivers livestock to the local for which he usually receives an advance as a percentage of the estimated selling price. Practice differs from local to local as to the method of estimation. The local also deducts handling charges to cover its costs and may set aside an additional amount out of the receipts for reserves, although some operate on a flat handling charge without any reserve. (Proceedings p. 819). Where the handling charge results in a surplus it is always distributed pro rata back to the people who distribute the livestock. (Proceedings p. 833). Thus the organization may insure liquidity by a large handling charge or by the use of reserves set aside out of proceeds. The locals also keep a ledger account which shows the deliveries, and consequently the members' interest in the assets of the local. Generally no equity certificate is issued showing this interest. (Proceedings p. 837).

Co-operative marketing of livestock in Saskatchewan and Manitoba is handled largely through the Saskatchewan Co-operative Livestock Producers Limited, the Manitoba Co-operative Livestock Producers Limited, and the Canadian Livestock Co-operative Western Limited.

The Saskatchewan Company was incorporated in 1926 under the Co-operative Marketing Associations Act of Saskatchewan. It was established as an agency to market the livestock of producers in Saskatchewan. It had no capital stock and was forbidden to pay any dividend. (Proceedings p. 6634). In 1944 the charter was taken over by the Saskatchewan Co-operative Producers Limited since which time it has been operated as a subsidiary. At this time, the act of incorporation of the subsidiary was changed to establish twenty shares of stock, sixteen of these \$1.00 shares were allocated to the directors,

Saskatchewan Co-operative Producers Limited, who also are the directors of the subsidiary. This is the pattern adopted for all subsidiaries of the Saskatchewan Wheat Pool. The livestock subsidiary when it distributes any surplus must do so on a patronage basis. (Proceedings p. 6635).

The Manitoba Co-operative Livestock Producers Limited was incorporated in 1927 under the Co-operative Associations Act of Manitoba to function as a central selling agency for forty-two local livestock associations with 14,000 producer members, all of which were incorporated under the Co-operative Marketing Associations Act. Local groups had emerged in the 1920's, many of which were never incorporated. They first marketed through brokers. After the subsequent establishment of a yearly return to the government and the imposition of a \$2.00 fee on the incorporated locals, many allowed incorporation to lapse. To meet this situation the charter of the central was amended to permit it to act as a selling agency to incorporated and unincorporated bodies. "The practice now is that each individual shipper is a member of the Manitoba Co-operative Livestock Producers Limited." (Proceedings p. 1942).

For administrative purposes the province is divided into seven districts as in the case of the Manitoba Wheat Pool. Each district elects ten delegates to the annual meeting and one director is elected from each district to make a total of seven.

Membership involves the payment through deduction of a \$1.00 fee. An unusual provision allows the shipper to refuse membership whereupon the deduction is returnable to him. (Proceedings p. 1954). However, no shipper appears to have acted in this way. (Proceedings p. 1955). Membership is automatic following shipment and deduction. There is no contract.

An attempt was made in 1929 by the incorporation of the Canadian Livestock Co-operative Limited to centralize Canadian livestock marketing. This company brought together all the active co-operative livestock marketing bodies in the country. Difficulties arising out of the collapse of the gold standard and shipping contracts forced division into separate corporations on a regional basis. The Canadian Livestock Co-operative (Western) was, therefore, incorporated in 1932 under the Manitoba Companies Act. Membership includes the Saskatchewan Co-operative Livestock Producers Limited, the Manitoba Co-operative Livestock Producers Limited and fourteen persons, seven nominated by each of the associations named from among its directors. (A. E. Richards—Farmers Business Organizations in Canada 1935).

Local co-operatives or individuals may consign livestock to the Canadian Livestock Co-operative (Western) as selling agent. The agent makes an initial return direct to the producer after deducting from the sale price, freight, feeding charges and brokerage commission charges set by the Winnipeg Livestock Exchange. Any surplus is returned to the two member co-operatives on a volume of business basis. Ninety per cent is returned in cash and 10% is withheld and returned on an eleven year revolving fund plan. In Manitoba, the Manitoba Co-operative Livestock Producers Limited distributes the funds received from the selling agent to the producers on a patronage basis after deducting operating expenses. (Proceedings p. 1946). This appears to be the principal commercial function of the Manitoba organization but it has many other educational and organizational functions. (Proceedings p. 1947).

Co-operative Livestock Marketing in the Maritimes

The Maritime Co-operative Services Limited was incorporated in 1944, to succeed the Canadian Livestock Co-operative (Maritimes). This latter association was incorporated as a central selling and purchasing agency for

a number of local livestock clubs or shipping associations which had developed with encouragement from the Dominion and provincial agricultural departments from 1919 onwards. A meeting at Moncton, in that year, resulted in the incorporation, on March 7, 1927, of the Maritime Livestock Marketing Board Inc., under Part II of the Canadian Companies Act of 1917. The formation of the company was aided by the promise of an annual Federal grant of \$1000. (Proceedings XI, p. 4100). Supplementary letters patent of 1931 enabled the company to change its name to Canadian Livestock Co-operative (Maritimes). Finally, in 1944, in order to extend the activities of the company into different fields, a new charter was obtained, effective June 1, 1945, and the name changed to Maritime Co-operative Services Limited. (Proceedings XI, p. 4136).

Canadian Livestock Co-operative (Maritimes) was set up as a federation of local associations, although individuals may also become members. However, such individuals may join only through a local club or shipping association, whether he seeks to utilize the shipping facilities of the co-operative or wishes to purchase merchandise and supplies. Both individuals and local associations are bound by contract to market all livestock, and to purchase all supplies, through the co-operative "insofar as is practicable".

The C.L.C. (Maritimes) was administered through a series of zones (originally seven in number, later, upon the withdrawal of the P.E.I. group, reduced to five), with one director from each zone. Each local association is entitled to one delegate at the annual meeting, but may, at the discretion of the whole body, be permitted to have an additional delegate for each \$10,000 in annual volume of business. Upon the withdrawal of the P.E.I. locals in 1933, the board of directors was reduced to six, one from each of the five remaining zones and one elected "at large". (1)

Its object, as outlined in the constitution include the co-operative purchasing of farm supplies and general merchandise as well as the co-operative marketing of livestock. The chief commodity marketed is hogs, primarily in the St. John River Valley area of New Brunswick and the Annapolis Valley of Nova Scotia. Sheep and lambs, as well as poultry are also important in marketing activity. Calves and cattle play a very minor role in livestock production in the Maritimes (Chown & O'Meara, p. 138). Other services are also provided for members as requested. Wholesaling is carried on with a headquarters located at Sydney, N.S. and a warehouse at Moncton, N.B.

The C.L.C. (Maritimes) includes approximately 100 locals representing about 10,000 members. The sole demand made by the C.L.C. upon the individual in order that he qualify for membership is that he agree to confine his marketing (and purchasing, if possible) to the local concerned. The member's liability is confined to the amount of deductions owing him and withheld by the co-operative. The new organization, the Maritime Co-operative Services has altered this arrangement. An authorized share capital of \$100,000 divided into 4000 shares has been set up. Each local association must hold at least one, and not more than ten shares, which may bear interest not to exceed six per cent per annum. Each association is entitled to but one delegate at annual meetings, regardless of share capital held. All commodities marketed are handled entirely on a consignment basis; the co-operative does not take title to the goods. (Proceedings p. 4139-40).

(1) W. F. Chown & J. E. O'Meara, (Marketing Service, Economics Division, Department of Agriculture) *The Co-operative Marketing of Eggs, Poultry & Livestock — the Maritime Provinces* (unpublished) p. 96.

The financing operations may be briefly outlined. There have been four main sources of revenue. (Proceedings p. 4102).

- (1) Both federal and provincial governments provided annual grants between 1928 and 1938, averaging about \$2500. per year. In 1939 they were discontinued at the request of the company.
- (2) The conventional commission charge, as laid down in the Livestock and Livestock Products Act, is made.
- (3) Manufacturing charges and mark-up of supplies sold provide another source of surplus.
- (4) A repayable reserve of one per cent is deducted on all business done.

The surplus has been treated as follows: There is a rather large undistributed general reserve, arising primarily out of the government grants of the first ten years of operations. Other important reserves are an educational reserve, a condemnation reserve (livestock insurance) and an inventory reserve. The one per cent deduction and other available surplus has been allocated and paid out on a five year revolving plan. Hence, the two primary sources of funds for expansion have been the general reserve and the revolving fund. The amount of dividend distributed has varied with the type of business done. For example, in 1944, while only one third per cent of business done was allowed on livestock marketing, those who purchased farm supplies received a dividend as high as six per cent. The Maritime Co-operative Services Limited has adapted a plan which permits an extensive broadening of the capital structure. (See bylaws). As yet, this program has not been tested. In addition to the \$100,000 in authorized share capital, the following sources of funds are available:

- (1) Five per cent of surplus is to be set aside, unallocated, each year until a fund equalling twenty per cent of paid out capital has been reached.
- (2) Further reserves may be set aside as deemed necessary by the shareholders.
- (3) The remainder of surplus is to be distributed to shareholders only, subject to the following conditions:
 - (a) the directors may establish a minimum volume of business below which no patronage dividend may be paid.
 - (b) the patronage dividend of any member may be applied on unpaid shares.
 - (c) the directors may retain such dividend to be paid at a later date, if this be deemed necessary.
 - (d) dealings in certain commodities, may earn a lower (or no) dividend than others.

In general, it may be said, that capital structure has been revised to permit a wide scope in the activity of the organization, especially with respect to providing greater co-operative purchasing and service facilities.

Prince Edward Island Co-operative Livestock Marketing Board

In 1933, as a result of a certain dissatisfaction with the administrative policies of the Canadian Livestock Co-operative (Maritimes) the P.E.I. local shipping associations decided to withdraw their support and organize their own central selling agency. Organizational work was immediately begun, and the P.E.I. Co-operative Livestock Marketing Board was incorporated, in 1936, by special Act of the provincial legislature. (2) The formation of

(2) Chown & O'Meara — "The Co-operative Marketing of Eggs, Poultry and Livestock in the Maritime Provinces," (unpublished),—p. 142.

this group was aided by both federal and provincial governments; the Dominion agreed to transfer a portion of its annual grant (\$300,000) from the Maritimes group to the P.E.I. Board. This grant was discontinued in 1939. The provincial government also granted \$500.00 annually.

While incorporation was not effected till 1936, operations were actually begun in 1934. The Board was patterned after the Maritime body, being set up as a federation of local shipping associations. It is administered by a Board of seven directors, three from Queens County, two from Prince and two from Kings, elected by the delegates from the locals, at the annual meeting. Each member is bound by contract to consign his livestock to the Board, through his local association, although frequently these contracts are not enforced.

All livestock received by the Board is handled on consignment. Most dealings are in hogs, though a certain amount of lambs, and a small number of calves and cattle are also marketed. In addition other services are also provided. Feeds are purchased co-operatively for members, and these feeds may also be processed, if necessary.

The organization was set up without share capital, and as a result the chief initial source of funds was the government grants provided. Other sources of capital have arisen out of current operations. A $1\frac{1}{2}\%$ commission is charged on all livestock shipped. In addition, deductions of \$1.00 per shipment are made to defray transportation costs; also $\frac{1}{4}\%$ of surplus is appropriated as a condemnation fund. There is very little surplus, because an attempt is made to estimate costs, and pay out net proceeds immediately to the producer. Charges are apportioned among the different classes of livestock and the average price is thus determined for the basic grade of each class. Payments are made on the basis of this average price. After this pro-rating is carried out, the balance is placed in an unallocated surplus and deficit account. This surplus is of a relatively minor nature; in fact one year's surplus may be wiped out by a deficit the following year. Accordingly, there is no distribution at the end of the year.

Some Smaller Organizations

The North-Eastern Alberta Livestock Marketing Association may be said to be a typical local association, marketing its livestock through the Alberta Livestock Co-operative Association. Of those locals reporting to the Commission, the majority conform generally to the pattern indicated here.

This co-operative was incorporated in December 1936, under the Co-operative Marketing Association Act of Alberta. It is set up with no share capital, the sole contribution being a twenty-five cent deduction from the first dividend paid. All surplus is allocated on a patronage basis. Part is paid in cash, and the balance placed in a two year revolving fund. All livestock, primarily cattle, is purchased from members, who receive part of the purchase price immediately, and the balance when sale is made.

The Therien Livestock Shipping Association Limited is an outstanding exception to this pattern as outlined above. This association has been incorporated under joint stock company legislation. It has share capital, of a par value of ten dollars bearing interest at 6 per cent. No member may hold more than twenty shares. Qualifications for members are either the purchase of one such share, or the payment of a two dollar fee. All surplus is allocated on a patronage basis to members only and paid out in cash as declared. Funds for expansion are secured through bank loan and the sale of additional shares. This association does not appear to be affiliated with the Alberta Livestock Co-operative Association. It handles livestock on a consignment basis for both members and non-members; non-members providing about 15% of total

business. Payment of federal income tax in 1943 is reported. This company would appear to be an ordinary corporation which has certain of the features characteristic of co-operative associations.

A second interesting deviation from the model is the Bow Valley Livestock Feeders Association Limited, located at Brooks, Alberta. This association was incorporated in November, 1938, under two separate Acts: the Co-operative Act of Alberta, 1937 and the Feeders Associations Guarantee Act of Alberta, 1937. Each member is required to hold one share and one share only, with a par value of one dollar. Its activities are confined to the purchasing and marketing of livestock for members, on an agency basis. Statutory reserves have been set up as a general reserve equal to thirty per cent of paid up capital and an educational reserve (an annual appropriation of five per cent of surplus). The balance is allocated, to members only, on a patronage basis but no distribution is to be made until a surplus of \$2500. has been built up. At June 30, 1944, this reserve stood at \$2270.27.

The Carrot River Valley Co-operative Marketing Association Limited located at Melfort, Saskatchewan, is a federation of thirty-seven local marketing associations, incorporated in June 1939, under the Co-operative Marketing Associations Act of Saskatchewan. It took over an existing business of a similar nature.

It has non-interest bearing share capital with a par value of \$1.00. Each local association is required to hold at least 25 shares. The locals are entitled to one delegate for the first 100 members, and an additional delegate for each additional fifty members. While the bylaws of the association provide for interest on capital not to exceed six per cent, as well as a written contract for a period up to seven years, neither of these provisions is at present enforced.

All surpluses including statutory reserves are allocated to members; all surpluses after providing for such reserves are distributed on a patronage basis to members only and paid in cash as declared.

Livestock is handled on consignment from members and non-members, although non-members comprise less than 5% of total business.

Ontario & Quebec.

Very few co-operative livestock marketing associations east of Manitoba have reported to the Commission, other than those mentioned above. In Ontario, four small groups have reported, of which only two are incorporated. Business is restricted to the handling of livestock on consignment and the purchasing of supplies and is confined to the local area. A large volume of livestock marketing is handled by the United Farmers Co-operative.

In Quebec the situation is much more complex. Very few co-operatives confine their activities to marketing of livestock. Of 63 associations reporting, 28 deal in livestock to a greater or lesser extent, and most of these are also active in the marketing of other commodities primarily dairy products and poultry and eggs; most also deal to a great extent in the co-operative purchasing of farm supplies, primarily feed and fertilizer. Therefore, it is impracticable in Quebec to investigate what characteristics are peculiar to livestock marketing associations in that province.

Co-operative Packing

One important co-operative organization in this field remains to be examined. That is the First Co-operative Packers of Ontario Limited, at Barrie, Ontario. This company which, it is claimed, is the only co-operative packing organization in Canada, (Proceedings p. 5411), was incorporated in 1929 under the Ontario Companies Act.

It was formed to operate an abattoir to process hogs and other livestock and to market poultry and eggs. Operations were commenced in 1931. Each member was required to pay a one hundred dollar membership fee, as well as pledging a fifty dollar note, payable on demand. Additional capital was obtained through a hold-back of twenty-five per cent of the purchase price. The first year's operations involved the company in a loss of over fifty-four thousand dollars. Operations were then suspended, and in an effort to meet the heavy deficit incurred, the capital notes were called in, and an assessment of twenty-five thousand dollars, distributed on a patronage basis, was made on the members.

After a period of fourteen months, operations were resumed in June 1933. About \$55,000. was collected on account of the capital notes called in, as well as \$1700 of the assessment, and this money, together with a \$25,000 loan from the Ontario government enabled the company to renew operations. In 1935, a more experienced general manager was appointed. At the same time, a government guaranteed bank loan of \$100,000 was secured. Ever since 1935, the company has operated without loss. The Ontario loan of \$25,000 has since been repaid, while the guarantee is still in effect. (Proceedings XV, p. 5396).

All surplus from 1935 until 1943 was credited to the heavy deficit suffered in the first years of operation; finally in 1943, a small net surplus was realized. Between 1938 and 1943, a small part of this surplus was distributed to members in the form of bonus on purchase price. (Proceedings XV, p. 5397).

At present, the organization has two major centres of activity, a meat packing plant at Barrie and a poultry killing and egg grading station at Elmvale. Sales are made mostly to the retail trade of Ontario and to the United Kingdom, through the Canadian Meat Board, and the Special Products Board. After the war, it is hoped to resume the pre-war trade in the West Indies. (Proceedings p. 5399-5400).

The company is administered by a board of seven directors, elected annually at the meeting. The territory of the association is broken up into zones; each zone is an administrative unit. The zone executive discusses educational and technical problems, and keeps the members informed of the activities of the company. Under a capital structure set up in 1944, each member is required to purchase at least one member loan unit at \$150.00 in addition to paying a fee of \$3.00 and to signing a contract in which he agrees to sell all of his livestock, eggs and poultry to the co-operative. Provision has also been made for those members who joined under the initial capital requirements outlined above. "All capital notes heretofore subscribed by members shall be converted into and known hereafter as Member Loan Units. All capital notes heretofore subscribed in denominations of \$100.00 and \$50.00 shall be consolidated on the books of the Corporation into a single member loan unit, and membership fees heretofore paid to the corporation shall be part of the paid up capital of the Corporation". (Bylaw 8, Article 6, section (g)). The association takes title to all the commodities it handles.

Provision is made for a further type of capital known as patron loan units, in units of \$1.00, which are valid only from year to year. These units are used as a means of distributing surplus to members on a patronage basis. The company pays the market price to its members, and in addition each member is credited with a fixed percentage of his sales to the company, based on estimated profits for the year. This credit is treated as an addition to purchase price. The member receives patron loan units from year to year in the amount of the sum credited. Also, these credits may be used to reduce the member's liability on account of unpaid member loan units.

At the end of the year 95% of surplus may be set aside to provide for redemption of patron loan units, the balance being placed in a community fund.

Twenty per cent of the surplus may be allocated for the redemption of previously issued patron loan units and the balance is credited on account of those units currently issued. The actual amount paid out is not rigidly laid down in the bylaws, since the directors are allowed a certain degree of discretion. In addition "such repayment shall not exceed in amount seventy-five per centum of the minimum surplus in any of the previous three years, and in the event there is no surplus in any one of the said three years, no such repayment of patron loan units shall be made until three consecutive years shall have elapsed during each of which there is a surplus". (Bylaw No. 8, Article 8, section (c)).

SECTION IV

FRUITS AND VEGETABLES

British Columbia.

Fruit growing in British Columbia centers in the Okanagan Valley. Co-operation in the fruit industry has existed in some form for almost as long as the industry itself (Proceedings p. 5177). In November, 1908, the Okanagan Fruit Union, Limited, was organized and in 1909 began business with head offices in Vernon and packing houses at five points in the Valley. It was proposed that charges for packing to cover cost, and that a rate of 10% be levied on commission sales. Any surplus after paying all expenses, including a dividend of 6% on share capital and setting aside reasonable sums to reserves was to be distributed on a patronage basis among growers (Proceedings p. 5178). This association operated for four years, but poor returns and a tonnage insufficient to permit economic operations resulted in its liquidation in 1913 (Proceedings p. 5179). The lack of grower control of shipping facilities, coupled with a flood of low price fruit from Washington and Oregon left the growers "at the mercy of the shippers who took only the amount of fruit for which they had orders" (p. 84 M. Ormesby — "Fruit Marketing in British Columbia").

The Okanagan United Fruit Growers was established in May, 1913, as a central selling agency for local co-operative units "to eliminate local competition at the selling end of the business" (Proceedings p. 5180). The Provincial Government assisted the new movement. R.R. Robertson of the brokerage firm of Robertson and Morris, of Vancouver, was commissioned to survey the situation. The result of this survey was the setting up of a number of local units of the proposed central. The Agricultural Associations Act was amended to enable these new associations to function thereunder. Financial aid was given and the Government agreed to advance up to 80% of the subscribed capital of the new organizations, payable within twenty years, with interest at 4% per annum. The Okanagan United Growers Limited was incorporated under the Companies Act, although it had many co-operative features. Capital consisted of 28 shares of \$1.00 each owned by the locals for voting purposes only; each local holding one share. Working capital was obtained by deducting 2% of the selling price from growers' returns, for which bearer bonds with interest at 5% per annum, and repayable in five years were issued. Operating costs were met by a fixed charge per package. Sales were pooled, the length of the pool being fixed by the association. Advances were made, where desired, up to a certain percentage of the estimated value of the produce to be delivered (Ormesby op. cit. p. 85). A three-party contract between the grower, the local, and the central called for the delivery of produce to the local association for sale by the central (ibid p. 85). The contract was continuous, subject to cancellation on March 31 of each year (ibid p. 85). Locals were self governing and controlled the central. The locals did the assembling and packing while the central acted as sales agent.

In 1913 there were eight affiliated associations and, later on, another association joined (Proceedings p. 5181). This organization carried on with varying success until 1928, but poor returns caused losses and growers' dissatisfaction was focused on the Okanagan United Growers. At that time shippers had not been fully organized, and many private shippers competed in the field. In December 1922, a general conference of growers was held and as a result thereof a committee was constituted, charged with reorganization. Thus was established the Associated Growers of British Columbia Limited. It was decided to replace the Okanagan United Growers in view of the prejudices against that organization (Proceedings p. 5182). Private fruit shipping houses in the district were to be taken over. It was expected that these houses would find themselves in increasing difficulties as farmers' co-operatives developed (Proceedings p. 5234). The Okanagan United Growers voluntarily went out of existence as a result of the rapid progress made by the new organization.

The Associated Growers obtained contracts securing control of 80% of the tonnage of apple production for five years. About 2700 growers signed a contract with terms similar to that of the Okanagan United Growers. At the end of five years a one year contract became effective (Ormesby—p. 87). As these first contracts expired, the tonnage acquired began to decrease, due to the waning support of the growers, and the competition of private shippers.

The Co-operative Growers of British Columbia was incorporated in 1923 under the Companies Act of British Columbia and in the same year the name was changed to Associated Growers of British Columbia Limited. (Proceedings p. 5177). A holding company, Growers Packing House Limited, assumed title to all the properties taken over from the independents (Proceedings p. 5183). The purpose was to transfer these properties gradually to the locals. The Company was wound up in 1927 when this programme was completed (Proceedings p. 5234).

The Associated Growers began with thirty-three affiliated associations in 1923; two being added in 1932 and 1934. There are at present twenty-one fruit and vegetable packing and shipping houses affiliated (Proceedings p. 5176) representing 1573 contract growers. Approximately fifty growers are not members of locals, but belong directly to the central (Proceedings p. 5186-7). The membership and marketing agreement is a three-party agreement between the grower, the local, and the central sales agency (Proceedings p. 5185). The first agreement was the so-called Series A agreement. Included in this was a provision for a 1% deduction for a commercial reserve and the payment of a pooling price to growers. The agreement now in force omits the 1% deduction. The Association also has a bipartite agreement signed by the fifty odd individual members, the terms and conditions being the same except that the locals are omitted.

The objects of the Association are broad in scope. Among other things it is to promote the sale of fruits and vegetables and to enter into agreements or other reciprocal arrangements for the disposition and sale thereof. No interest or dividends are to be paid on share capital. Upon winding up, assets are to be distributed on the basis of selling charges collected by the Company from the locals over the life of the company (Proceedings p. 5183-4).

Share capital consists of 10,000, \$1.00 shares, of which \$56.00 is paid up; twenty-one shares being issued to the locals, fifteen to the directors and the balance to locals which have become defunct, some of which is held in trust by the Secretary-Treasurer, to be re-issued to new locals. The one per cent deduction from the gross selling price for commercial reserve, permitted by the original agreement, is allocated to locals (Proceedings p. 5187). There are only \$15,000.00 in reserves (Proceedings p. 5211), which are not allocated to locals (Proceedings p. 5212). Returns are pooled, all locals receiving the same

amount per box or other unit for like variety and grade. Handling charges are set at the beginning of the season, and any balance remaining at the end of the season is rebated pro rata to all growers through the locals, with the exception of a small surplus account (Proceedings p. 5188). A flat handling rate is charged (e.g. 6 cents per box on apples and four cents per box on peaches and small fruits) (Proceedings p. 5220).

The association handles members' produce on consignment (Proceedings p. 5218). The association is obligated to take everything shipped by members with the exception of bad produce (Proceedings p. 5232). It markets the fruits and vegetables of, and purchases supplies for member-growers and also undertakes group insurance on the buildings, equipment and stock of local associations (Proceedings p. 5186).

Some assistance was obtained from the provincial government by the Associated Growers. Other period legislation was passed to prevent independents from soliciting grower members of co-operative locals (p. 14—Combines Investigation of Fruits and Vegetables in Western Canada).

All locals are incorporated under the Agricultural Associations Act and the amended Co-operative Association Act of British Columbia. They receive, pack and ship growers' produce (Proceedings p. 5190) and conduct activities incidental thereto, such as, the operation of cold storage and by-products plants, as well as the supplying of fertilizers and insecticides (Proceedings p. 5191). Locals are financed mainly by deductions for which the growers receive shares. There are, however, variations from this procedure. For example, bonds may be issued instead of shares. Shares are on a revolving basis, usually redeemable in from three to five years, although two locals do not revolve share capital (Proceedings p. 5233). Interest on shares is sometimes paid (Proceedings p. 5191). Capital therefore consists of cold storage subsidies, appreciation in assets, and holdbacks. The holdbacks are not allocated to growers (Proceedings p. 5207) and no participation certificates are issued (Proceedings p. 5207). Loan capital in the form of bonds bears interest at a fixed rate (Proceedings p. 5228). In some cases shares were replaced by bonds (Proceedings p. 5227). The members are often required to make loans to the association (Proceedings p. 5227-8). Some are paid for by deductions and investment certificates are issued. It was found that the capital needs were greater than the surpluses which were accumulating (Proceedings p. 5231). Financial assistance has been obtained in the form of loans from the British Columbia Government which have all been repaid (Proceedings p. 5190) and cold storage subsidies have been received from the Federal Government.

The Penticton Co-operative Growers is one of the "locals". It was incorporated on April 25, 1913, under the Agricultural Associations Act of British Columbia to receive, pack and ship growers' fruits and vegetables, to store fruit, to purchase supplies, etc. The affairs of the Company are managed by a board of directors elected by the growers. A member cannot vote at the Annual Meeting unless he has sold his main crop through the association or has contracted to do so in the following year, or has received the consent of the directors in writing to dispose of the crop otherwise (Proceedings p. 5192). Voting is on the one member one vote principle, with proxy voting permitted in the election of directors. The share capital of the Company consists of an unlimited number of \$1.00 shares. Working capital has been obtained by means of a five cent per box deduction from crop returns, for which stock certificates have been issued (Proceedings p. 5192) on a three-year revolving basis. Up to 1940 no interest was paid on these, but in that year it was decided to pay interest at 5% on grounds of equity. By March 31, 1944, \$84,114.00 had been issued on shares. Financial assistance was obtained in 1913 in the form of a loan from the British Columbia Government, which has

since been repaid, and cold storage subsidies from the Federal Government. Packing and handling charges are set at the beginning of the season on an estimated basis. Rebates are made to reduce charges to equal the cost of the total operations. (Proceedings p. 5194).

The Pacific Co-operative Union is an example of an association not affiliated with the Associated Growers. It is incorporated under the British Columbia Co-operative Associations Act. Share capital consists of an unlimited number of \$10.00 shares, with a limit of \$1,000.00 per member, revolving in five years. The central office is in Mission City and it has five branches. Membership is obtained by buying a share. The association handles produce on consignment for members and non-members; the latter representing 15% of the total sales. By an extraordinary resolution in December 1941, the association was authorized to issue ordinary (transferable but not redeemable) shares of a par value of \$10.00 each to an amount not to exceed the surplus, to each member of the Pacific Co-operative Union in proportion to his total investment in the Co-operative from 1933 to 1941 inclusive.

By 1941 the Company absorbed the Associated Berry Growers' Co-operative Exchange. It issued to the members of the Associated Berry Growers, 424 redeemable shares of \$10.00 each and 212 ordinary shares (transferable but not redeemable) of \$10.00 each. Ordinary shares are interest bearing, the rate being determined annually by the general meetings. An unlimited number can be held (Rule No. 1). Only shipping members may vote, and only berry growers may vote on any matter relating solely to berries. Similarly, only tree fruit and vegetable shippers may vote on matters pertaining solely to their respective products. There is a contract which remains in force without renewal. Returns for like grades and kinds of produce are pooled.

Similarity of structure among the local associations, both those affiliated with the Associated Growers, and with the independents, is evident.

Since 1939 many local shippers in the Okanagan Valley, who ship through Sales Service, Limited, a privately owned joint-stock Company, have reverted to the co-operative form of organization (p. 15, Fruit and Vegetable Investigation).

Manitoba

The Manitoba Vegetable and Potato Growers Co-operative Association was incorporated under the Companies Act of Manitoba, with share capital. An annual membership fee of fifty cents, or a single payment of \$10.00 for continuous membership is charged. There is no contract and the Association does not engage in the processing of members' produce. Loans have been obtained from members, to be applied on share capital as and when it is issued. Each member has one vote, and no member other than a corporation can vote by proxy.

Ontario

In Ontario the United Farmers Co-operative Company, Limited, has provided centralized marketing facilities for its affiliates dealing in fruits and vegetables. Much co-operative activity here has taken the form of attempts to overcome seasonal fluctuations of supply, which react unfavourably on price (C.S.T.A. — Review No. 19, December 1938 — p. 372-3). Regional marketing schemes have been attempted as well, with varying success.

The South Essex Growers' Co-operative Exchange was formed in 1928 under the Ontario Companies Act as the buying and selling agency for four local associations; the Harrow Vegetable Growers, the Kingsville Vegetable

Growers, the Ruthven Vegetable Growers, and the Seacliff Growers' Co-operative Association. Membership in the South Essex Co-operative is open to associations incorporated under the Ontario Companies Act. The local association applies for membership, and pays an annual fee of \$2.00 for every member of the local. The Board of Directors is made up of members appointed by the local associations, three members being chosen from each. Representatives from the local associations to the general meeting have one vote only, and no voting by proxy is allowed. The bylaws provide for setting not more than 20% of surplus in any one year to a reserve. (B.P. — Skeg. — Co-operative marketing of Agricultural products in Ontario — Thesis — O.A.C. — 1933, p. 176). Member associations sign a contract with the Exchange. There is no share capital. A variety of vegetables are handled and some fruits. The association does not engage in processing.

The Ontario Peach Growers' Co-operative Association was incorporated without share capital under the Ontario Companies Act. The Association is managed by a Committee of fruit growers, each of whom is a member of the association. Directors are elected at the Annual Meeting of the Peach Growers' Committee. Growers comprising Sales Units authorized by the Board of Directors each nominate and elect a representative or representatives to the Peach Growers' Committee. Sales Units having ten to fifty growers may nominate one member, those having fifty-one to one hundred growers may nominate two and those with one hundred or over, three. The capital of the association consists of \$1.00 per member payable to the Sales Unit of which he is a member. There is an annual membership fee of \$1.00 payable to the Sales Unit by each of its members. This may be deducted by the Sales Unit from funds payable to the members. Deductions from 1938 to 1941 amounted to $\frac{1}{3}$ of 1% on gross sales. From 1942 the association has operated on license fees. The Association has power to set aside from surplus funds as a reserve fund such an amount as the Directors may determine, not exceeding 1% of the gross sales for that year. The remaining net surplus is distributed annually pro rata among members on the basis of patronage. The Sales Units contribute to the cost of operations of the Ontario Peach Growers an amount not to exceed $\frac{1}{4}$ of 1% of the Sales Units total gross sales of peaches, in addition to the growers' membership fees. Each sales Unit deducts a maximum of $\frac{1}{4}$ cent per pound as a brokerage fee and may dispose thereof at its discretion (By-laws). The Ontario Peach Growers' Co-operative Association is responsible for the financial support of the Local Board under the Ontario Peach Growers' Marketing for Processing Scheme 1937 (revised 1942).

The structure of the Ontario Asparagus Growers' Co-operative, Limited, is much the same. It was appointed as a local board under The Ontario Asparagus Growers' Marketing for Processing Scheme of 1938 (revised in 1941).

The Norfolk Berry Growers' Association was incorporated under the Ontario Companies Act with non-revolving share capital. A pooling price is paid on berries shipped. Dividends are partly paid in cash, and partly placed in reserve revolving out from four to five years. Membership is obtained by signing the marketing contract and paying an annual \$1.00 membership fee. The grower agrees to market all strawberries and raspberries through the Association (Marketing Agreement).

The Beaver Valley Co-operative Fruit Growers, Limited, has quite a different structure. Membership is on the basis of patronage only and there is no written contract. Share capital consists of \$100.00 non-revolving shares, bearing interest at 6%. All surpluses are left with the Company to increase storage capacity upon agreement among the patrons.

Quebec

In Quebec, specialized co-operative marketing of fruits and vegetables is relatively unimportant. Many co-operatives which deal primarily in other commodities and in farm supplies, handle fruit and vegetables, but only few local associations specialize. Much of the marketing is centralized through the Co-opérative Fédérée de Québec. Local associations show a similarity in structure. Share capital plays a fairly important role in financing. Some co-operatives pay interest and some do not. Written contracts appear fairly general. Some associations engage in processing.

La Société Co-opérative Agricole de St-Fabien, incorporated under the Agricultural Associations Act, has share capital of \$50.00 each, bearing interest at 5%, with a limit of one share per member. It operates with a written contract and utilizes the loan services of the Caisses Populaires. The Association operates with a written contract. When a dividend is declared, it is either paid out in cash, or a member can lend it to the co-operative in the form of preferred capital. The Association is affiliated with the Co-opérative Fédérée. La Société Co-opérative de St-Brigide d'Iberville has authority in its articles to issue preferred shares which are held by other than producers, bearing interest at from 1% to 7%. Share capital of these associations is generally non-revolving.

Nova Scotia

First attempts at co-operation were made in 1903, with the establishment of the Annapolis Valley Apple Shipping Association (Proceedings p. 5324). No capital was raised by this organization, and it never commenced operations. The passing of the Farmers' Fruit Produce and Warehouse Associations Act, which provided the means for the incorporation of co-operative associations, stimulated co-operative organization (Proceedings p. 5325). By 1912 the need for a central organization was felt. Another Act was passed in that year entitled "An Act to further Facilitate the Incorporation of Farmers' Fruit, Produce and Warehouse Associations". Immediately after this legislation was enacted, the United Fruit Companies of Nova Scotia, Limited, was incorporated under Chapter 22, Acts of 1912, now Part 12, Chapter 10, R.S.N.S., 1923. The majority of local co-operative companies have been incorporated under Chapter 33, Acts of 1908, Statutes of Nova Scotia as joint stock companies (Proceedings p. 5323). Each local of the United Fruit Companies elected three members to the Annual Meeting of the Central. One of the three was elected to the Board of Directors, that is each local had one Director. Later legislation permitted a small board of management chosen from among the directors. By Chapter 80, Statutes of 1944, the number of representatives per local was reduced to one instead of three. These representatives meet more frequently and have more control than under the former plan (Proceedings p. 5323). There were originally twenty-four member companies holding shares all incorporated under Chapter 33, Acts of Nova Scotia, 1908, new Part 1 of Chapter 70, R.S.N.S. (Proceedings p. 5323). Members were companies in the counties of Hants, Kings and Annapolis. Now any person can become a shareholder with the approval of the Directors (Proceedings p. 5324). There are more than 1400 growers marketing their produce through the Association, representing approximately 58% of all apple growers in Nova Scotia (Proceedings p. 5323). Formerly, voting was on the basis of one vote for each share held, but since the legislation of 1944, the one-member, one-vote principle is used. There is no contract by which the members can demand money from the Central (Proceedings p. 5392). A membership agreement was approved

by legislation, but has been used but little (Proceedings p. 5392). The bylaws state that the Company must pay back to the members everything less deductions for expenses. There are now 39 local company-shareholders of which 37 use the facilities of the United Fruit Companies (Proceedings p. 5326). The association markets apples on an agency basis (Proceedings p. 5363-4) and purchases supplies. Originally all apples were disposed of through the one company and the proceeds pooled (Proceedings p. 5326) but dissatisfaction developed due to difficulties in maintaining a uniform grade of fruit from all companies and to active opposition from the private dealers. The result was the abandonment of the central pool idea, and thereafter each local operated its own local pool. Several companies withdrew from the central and operated their own selling agencies. Central pooling has again been adopted during the present war, with the institution of the Nova Scotia Marketing Board and compulsory central marketing. In 1944 over 50% of all apples in Nova Scotia were produced by members of the Company (Proceedings p. 5341) as against 26% in 1929 (Proceedings p. 5332). The Company owns a number of processing plants (Proceedings p. 5365). Processing has become more important since the overseas markets were lost. Only 35% of the crop is expected to go to Britain after the war as against 80% prior to the war. Processing is therefore necessary in order to dispose successfully of the crop (Proceedings p. 5252). Processing requires capital. Advances are made to growers during the season through the local, and the balance is paid at the end thereof (Proceedings p. 5380). In the case of fertilizers, the price charged is the lowest competitive price that will prevent the grower from being attracted to other companies (Proceedings p. 5377). A tentative price is set, with a rebate on a per ton basis if there is any surplus, before the season is over (Proceedings p. 5380).

Deductions of several cents per barrel of apples shipped are made to take care of operating expenses (Proceedings p. 5364). Share capital consists of \$100.00 shares which are interest bearing, but interest has been declared only once in the last ten years. Each local company formerly subscribed to shares equal in value to 20% of their capital stock (Proceedings p. 5360), but since the 1944 bill was enacted, the constitution requires each member to hold only one share. The company has no power to repurchase shares. A few directors personally guaranteed bank loans some time ago to keep the company afloat (Proceedings p. 5328). Locals which recently resumed association with the Central, made voluntary assessments upon themselves in order to reduce the indebtedness of the Company (Proceedings p. 3328). The members permitted the Company to retain \$50,000. from funds owing to them to construct a cold storage plant. They signed personal notes for the amounts in question. However, some members refused to do this (Proceedings p. 5390). The Nova Scotia Government a few years ago created a mortgage company to lend government funds to co-operatives. At present most locals have mortgages on their warehouses through funds obtained from this source. The capital needs of the company are increasing due to the necessity of processing (Proceedings p. 5366). A repayable reserve, consisting of funds obtained by the taxation (sic.) of a certain part of the business of the company was inaugurated in 1944, but was discontinued in a few months (Proceedings p. 5387-8). The dividend paid is only a rough approximation to payment on a patronage basis (Proceedings p. 5328). The Company has shares in the Union Dehydration Company, Limited, and holds stock in the Eastern Lime Company.

SECTION V

UNITED FARMERS CO-OPERATIVE

The United Farmers Co-operative arose out of a development based on the experience of the Patrons of Industry, The Farmers Association, and the Grange. It was incorporated under the Ontario Companies Act in 1914. It acts as a central marketing agency and as a wholesale supplier for local co-operatives and farmers' clubs. It has extended its operations into the processing of farmers' produce, and the manufacture of farmers' supplies. It has also joined with other co-operatives in Canada and the United States to produce farm machinery and building supplies. Its volume of business now is about \$20,000,000.00 per year.

The first venture was to supply binder twine to farmers. Price difficulties with Canadian manufacturers led to importation from Ireland (Proceedings p. 5116). The Company now acts as a wholesale purchaser of farm supplies for 68 co-operatives and 44 unincorporated farmers' clubs. In 1940 the Company began to manufacture Co-op Feeds for distribution through the locals. For many years it had been supplying fertilizer ingredients to be mixed by the locals. In 1941 the Company purchased a fertilizer plant in West Toronto. In conjunction with United States Co-operatives the Company owns Co-op Shingles at Fanny Bay, B.C. It is also interested in Co-op Universal Milkers in Waukegan, Wis. In 1944 the company purchased the Co-op Universal Milker assembly and distribution plant at Peterborough. In 1944 it inaugurated the Co-op Premix Food Plant.

Marketing of farm products has also expanded. Between 1920 and 1928 the company purchased seven creameries. In 1919 a livestock marketing department was established, and the company is now the largest livestock commission agency on the Toronto Union Stock Yards. In 1920 a seed cleaning and merchandising department was established. The latest department established markets poultry, utilizing the processing facilities of three autonomous co-operative plants at Peterborough, Cayuga and Renfrew.

The Company carries on its business with its affiliates and the farmers' clubs through a series of agreements. An "Affiliation Agreement for Co-operative Purchasing" regularizes the merchandising of farmers' supplies. It stipulates that the Company shall provide for the wholesaling and manufacturing of a wide range of supplies and equipment. Bylaw No. 7 provides that each co-operative or farmers' club shall elect one delegate shareholder to the shareholders' meeting if it holds at least one share, and an additional delegate shareholder for each forty members above the first forty, with a maximum of eight delegates per local, providing the local holds a share for each delegate; that patronage savings returns shall be paid, when earned, in cash on such goods as may be mutually agreed upon; that the local has exclusive distribution rights on a zoned basis where practicable, the company agreeing to sell at wholesale only to the local in the price zone; and that general assistance shall be given in establishing bookkeeping and auditing services, counselling and advice and selecting and training of staff. The local agrees to purchase as large a volume as possible from the wholesale; to provide advice on local price conditions; to maintain prices; to invest all patronage savings returns in the common stock of the wholesale until the total investment for all affiliates reaches a sum of \$500,000.00; to pass on patronage benefits to its own members.

"An Agreement on Premix Concentrate Feed Program" by which the United agrees to supply the premix is of particular interest for the financial clause which requires the affiliate to provide \$1.50 per ton on the first year's business as capital, either by the purchase of common shares, or by the sale

to individuals on behalf of the Central of preferred shares at \$5.00 each. Patronage dividends in cash from surplus in excess of the prorata share of common stock of the affiliate is also covered.

A five year marketing Contract between District Poultry and Egg Co-operatives and the United requires the affiliate to deliver its entire volume of poultry, eggs and by-products to the central organization. It also provides for a first remittance to be determined by the central, as soon as possible; and for the later payment of the balance less the first remittance and administration charges and managerial expenses. The product becomes the property of the central when shipped, subject to the initial and final payments. Provision is made which permits the Central to deduct from monies owing to the local 30% of the value of commodities which the local fails to market through the Central.

Two other agreements, the "Management Agreement" and the "Business Service and Supervision Agreement" provide for management and supervision of the affairs of the locals which may sign such an agreement.

The original authorized capital of the company was \$10,000.00 in \$25.00 shares which were all subscribed and paid up within three years of incorporation in 1914 (Proceedings p. 5127). These shares were widely held largely by individuals (Proceedings p. 5119). By supplementary letters patent in 1917 the authorized capital was increased to \$250,000.00 in \$25.00 common shares. In 1920 when the United Farmers movement had reached a peak with 1,500 farmers' clubs in Ontario the authorized capital was increased to \$1,000,000.00 and in 1921 an additional 10,000, \$25.00 shares brought the authorized capital up to \$1,250,000.00. Of this amount probably \$800,000.00 was actually paid in to the company in cash. With the 1920 increase the subscriber was given the option to pay one-half in cash and one-half by demand note.

The financial structure was reorganized in 1927. In the face of losses the directors decided against calling for payments on the demand notes. These were cancelled and holders of \$25.00 shares received two no-par value shares, while holders of shares which had been paid for by cash and note received one no-par value share. (Proceedings p. 5132).

In 1943 the company was brought under Part XII (the Co-operative Associations Section) of the Ontario Companies Act. This gave the directors power to control the transfer of shares. In 1944 the capital structure was again reorganized. 100,000 non-voting preference shares were created with a non-cumulative preferential dividend of 5%. At the same time the common stock was increased.

By these changes the Board was placed in a position to raise additional capital through preference shares from non-patrons and patrons alike and at the same time to replace voting shares in the hands of non-active persons by non-voting shares. This was in line with the movement during the 1930's to increase the control by affiliates and reduce the influence of individuals (Proceedings p. 5144).

A further advantage was derived from an amendment to Part XII of the Companies Act in 1942 which permitted the payment of patronage dividends on certain kinds and classes of goods rather than on overall business (Proceedings p. 5169).

The capital of the affiliates may be on a share capital basis, but there has been a trend in Ontario toward financing on a loan unit basis. Generally speaking this financing may take one of three forms. There is cash put up by the individual member; there are dividends earned by the local which may be allocated to the member under bylaw and under agreement; there may be wholesale dividends turned back to the local and applied on common stock issued to the member (Proceedings p. 5158).

From 1914-1920 the Company paid 7% dividends on its shares. From 1920-1927 the record is obscure. Five per cent has been paid for about ten years on the common and preferred shares on a value of \$5.00 per share in each case (Proceedings p. 5155).

Apparently no patronage dividend was paid from 1914-1920. From 1923 patronage dividends were paid to cream patrons, shareholders and non-shareholders alike, on the basis of the earnings of the creamery department. (Proceedings p. 5135). In the case of cream the Company pays a patronage dividend which may differ from one creamery branch to another. In other words it operates seven separate pools rather than one inclusive creamery pool. The initial cream price is the market price (Proceedings p. 5160). In this case the company buys the butterfat. In an egg pool operated at the same time the initial payment was not necessarily equal to market price. A final payment or dividend was also made. At present patronage dividends are paid on farm products marketed through the company (Proceedings p. 5140). Where patronage dividends are paid to individuals, as in the case of cream producers, no distinction is made between shareholders and non-shareholders, but patronage dividends to affiliates are paid to shareholding affiliates only (Proceedings p. 5147). If an affiliate purchases farm supplies, the company charges the current retail price and makes rebates out of surplus. This takes the form of stock in the company, but if the agreement with the affiliate is cancelled it is paid in cash (Proceedings p. 5164). The Livestock Department operates on a commission basis and pays no patronage dividend. (Proceedings p. 5160).

Membership in co-operatives in Ontario originally required shareholding. Since the original shares were held by individuals, control was on an individual basis. With the later reorganizations and the introduction of non-voting preferred shares and bylaw No. 7 the role of the individual has declined relatively to that of the locals. In 1944, of 320 persons registered at the annual meeting, 170 were delegates from locals.

Other general purpose co-operative federations include the Co-opérative Fédérée de Québec and the Canadian Livestock Co-operative (Maritimes). The operations and financing of the former are treated briefly in Appendix C. Some federations such as the Saskatchewan Federated Co-operatives and the Manitoba Co-operative Wholesale Society, confine their activities to handling farm supplies and consumer goods at wholesale.

SECTION VI

CANADIAN CO-OPERATIVE WOOL GROWERS LIMITED

This is a Dominion wide organization which operates in all provinces. It has been in business since it was organized by Letters Patent in 1918, as a result of a meeting of sheep raisers called by the Dominion Department of Agriculture. It now handles about 65% of the annual wool clip. Previous to its organization, wool was marketed through local dealers or itinerant buyers without careful cleaning and grading.

The organization consists of a head office in Toronto with branches in Lennoxville, Quebec, and Regina, Saskatchewan, and grading warehouses

in Weston and Carleton Place, Ontario, Lennoxville, Quebec, and Truro and Antigonish, Nova Scotia. Over 20,000 wool growers now market through the association (Proceedings p. 5427). Marketing is either through ten or twelve local affiliated associations or directly by about 12,000 individual farmers who are not members of the associations. The associations are principally in Western Canada while growers in Ontario, New Brunswick and Nova Scotia deal directly with the central association. (Proceedings p. 5433). The locals are generally organized without share capital and incorporated under provincial agricultural associations Acts. They vary considerably in size. Their expenses are covered by a poundage charge on wool and by earnings derived from sale of supplies. (Proceedings p. 5428).

Any shipper is considered a member, and membership does not require shareholding (Proceedings p. 5433). However, voting privileges are limited to shareholders but are on a one man one vote basis (Bylaws). A local association may hold shares without limit but an individual is limited to 50 shares (Proceedings p. 5461). Membership was on a contract basis for five years after 1930, when efforts were made to limit the number of members and prevent the company from being flooded with wool in the period of falling prices. Contract membership has been dropped. However, shippers do sign an application form stating their intention to ship through the Association (Proceedings p. 5436).

Control is vested in a Board of Directors of fifteen members elected by the shareholders by delegate voting (Proceedings p. 5427). The bylaws provide that each province having members shall be represented on the Board with a maximum of three from any province.

In its wool business the Association attempted to reduce transport costs by placing branches or assembly depots at strategic points and by having affiliates ship in carload lots. Improved methods of grading and cleaning were introduced to improve quality and reduce transport costs. Efforts to expand the U.K. market were also pushed.

The Association supplies growers with materials used in sheep farming. To this end it acquired the Canadian agency of the English firm, Cooper, McDougall and Robertson.

The authorized capital is \$200,000.00 in 20,000 — \$10.00 shares of which approximately \$120,000.00 has been issued, most of which is in the hands of growers and associations (Proceedings p. 5427). Return on capital is limited to 8% and in practice ranges from 4% to 6%. Apparently the Association pays the equivalent of interest on bank loans (Proceedings p. 5478).

During the crop moving period of May, June and July, the Association resorts to bank borrowings of over \$500,000.00. A cash advance usually about two-thirds of the estimated value of the wool is paid to the growers or associations on the same terms. When 80% of the clip has been marketed a final payment is made after deducting costs of handling on the assumption that the final 20% will bring as high as the 80% already sold. (Proceedings p. 5429).

Any surplus may be rebated on a poundage basis at the end of the year. Handling charges on wool are now set by a government agency, the Canadian Wool Board Limited.

Several reserves have been set up. On two occasions the association's initial advance turned out to be an overpayment. In the first case the members were assessed, and collection made in cash and partly by deductions from

receipts from sale of later shipments. On the second overpayment the Association showed a loss. Subsequently a contingency reserve was set up to meet such a situation. It is now approximately \$200,000.00. This reserve is the property of the co-operative, but on winding up the bylaws provide that it shall be distributed on a patronage basis to the current year's shippers.

A general reserve currently of \$119,120.00 has also been set up to meet any unforeseen losses such as bad or doubtful accounts. The Association asserts that this reserve is the property of the members as shippers, and on winding up of the company would be distributed to the last season's shippers. (Proceedings p. 5450).

The third reserve, the Growers Reserve, has credited to it each year a portion of the surplus allocated to the growers on a basis of quantity and quality of wool delivered. The company pays out this reserve to affiliated associations in the year in which it has been credited, and to individual shippers when the credits equal 1c per pound on wool delivered. The company therefore has the use of these funds as working capital for a short period of time. (Proceedings p. 5431).

This organization makes no attempt to bring the member's interest as patron into line with his interest as investor. In fact the company appears to look upon this principle with disfavour (Proceedings p. 5465). However, apart from the sales at the time the company started, additions to shares have recently been at some small fractional rate per pound. (Proceedings p. 5437). The limit of holding by individuals, and the fact that return on capital is not specifically related to earnings of the company, along with the interpretation of investor equity as meaning the par value of the share, suggest a lack of concern with this problem.

In handling the wool of its patrons the Association acts as an agent taking the goods on consignment. This is not so in the case of supplies. These are bought and sold outright either on credit against wool receipts or for cash. (Proceedings p. 5440). The policy is to distribute these goods at prices as close as possible to cost. The company sells both to its members and, in districts where there is little sheep ranching, to the local trade. Terms are the same for all types of customer. The Company does not provide supplies to the trade in centres where the shippers have their own supply organization.

APPENDIX C

Financial Information and Operating Methods of Certain Co-operative Societies in the Provinces of Quebec and Saskatchewan

QUEBEC CO-OPERATIVES

A substantial portion of the co-operative business in the Province of Quebec is conducted by local agricultural societies whose products are marketed principally by Co-opérative Fédérée de Québec.

Financial information relating to these local societies was obtained from the statistical records of the Quebec Department of Agriculture and appended hereto are the following:

- Exhibit 1 — A chart showing the volume of business during the nine fiscal years 1935 to 1943 of
 - (a) Co-opérative Fédérée de Québec
 - (b) All local agricultural societies in the Province of Quebec
 - (c) A composite group of fifty such local societies.
- Exhibit 2 — Statement of members' equity in all agricultural co-operative societies in the Province of Quebec and in the composite group of fifty such societies at the end of the 1935, 1939 and 1943 fiscal years of each of the constituents, together with details as to how such equity is invested and what it represents.
- Exhibit 3 — A chart showing the division of the members' equity in all the agricultural societies between capital (including allocated surplus) and unallocated surplus at the end of each of the nine years 1935 to 1943.

Financial Structure and Membership.

The Co-opérative Fédérée de Québec was established in 1922 to market the products of various local agricultural societies in the Province. The common stock of the Fédérée is held by affiliated member associations who are required to invest 5% of their paid-up capital in such stock.

As shown on Exhibit 2, the number of local agricultural societies in the province has increased from 158 in 1935 to 544 in 1943. Of these societies 95 were members of the Co-opérative Fédérée in 1935 and there were 309 of such member societies in 1943. Each member of the local societies is usually required to subscribe for \$50. in share capital of his society; it is fairly general practice for the members to pay a quarter of this in cash, and the balance is provided by deductions from the proceeds of products delivered during the first three years of membership.

Operating methods

The local associations purchase the farm products of their members at prevailing market prices. These products, which consist mainly of butter, cheese and livestock, together with smaller quantities of eggs, poultry, fruits, vegetables and grain, are processed by the local associations and sold on consignment, principally to the Co-opérative Fédérée; all members of the Fédérée are supposed to ship to it exclusively. The Fédérée returns to the locals the full proceeds derived from the sale of these products, after deducting handling charges and 5% for other expenses. At the end of each year the Fédérée determines the rate of patronage dividend payable on each product, but such patronage dividends are paid *only* to member associations. Any non-member group who joins within six months after the end of the fiscal year of the Fédérée becomes eligible for patronage dividends on shipments in the preceding year. During the nine years 1936 to 1944, the Fédérée has allocated to its members approximately half of the available earnings and the balance has been retained within the business. Up until the year 1942, all allocations were paid out in the subsequent year but commencing with the 1943 fiscal year, the members were given the option of leaving all or part of their patronage dividends on deposit with the Fédérée; these bear interest at the rate of 5% per annum and are withdrawable on demand.

The local associations also sell to their members farm supplies. These consist mainly of feeds, seeds and fertilizer. The locals purchase these supplies (principally from the *Fédérée*) at retail prices and sell them at substantially the same prices to their members. Patronage dividends on certain of these products are declared by the *Fédérée* at the end of each fiscal year and distributed to the member association unless it wishes to leave the dividend on deposit.

It will be seen, therefore, that the member association receives its patronage dividends on shipments to or purchases from the *Fédérée* in the year following shipment or purchase. The exact amount of patronage dividends paid out by the locals to their members is not available in the provincial statistical records but it is apparent from the appended statements that a substantial portion of the earnings of the locals have been retained.

Operating and Financial Results of Local Agricultural Societies in the Province of Quebec during the eight fiscal years 1936 to 1943 inclusive

Exhibit 2 attached, shows the members' equity in all agricultural co-operative societies in the Province of Quebec at the end of 1936, 1939 and 1943 fiscal years of each of the constituents, together with details as to how such equity is invested and what it represents. It also shows similar data for a selected group of fifty such societies; the equity of the complete group is shown in graphic form on Exhibit 3. The financial information for these associations, as compiled by the Quebec Department of Agriculture, suggests the following significant points.

- (1) As shown on Exhibit 1, there was a substantial growth in the volume of business transacted by both the local agricultural societies and the Co-opérative *Fédérée* during the nine years 1935 to 1943; it must, however, be borne in mind that the volume of business of the *Fédérée* shown on this exhibit is, to a considerable extent, a duplication of the sales of the local societies.
- (2) The number of societies in existence has increased from 158 in 1935 to 544 in 1943 and the membership has increased proportionately from 11,849 to 44,069.
- (3) As shown in exhibit 2 the equity of the members in all societies in the province increased from approximately \$800,000 in 1935 to \$4,300,000 in 1943. Of this increase of \$3,500,000 some \$2,000,000 represented increase in capital and allocated surplus, the balance being unallocated. The data available are not sufficiently detailed to show what part of the increase in capital and allocated surplus is attributable to cash payments by the members, what part represents deductions or patronage allotments applied to the payment of share subscriptions; and what part consists of patronage allotments declared but withheld from the members. The amount of equity per member increased from some \$65. in 1935 to approximately \$95. in 1943.
- (4) At the end of 1943, current assets exceeded all liabilities to the public by approximately \$600,000 as compared with a corresponding deficit of \$70,000 at the end of 1935; thus there was an improvement of \$670,000 in the financial position of all the agricultural co-operatives during the eight-year period; it is significant that over 50% of this improvement is applicable to the fifty specific co-operatives shown in the second section of Exhibit 2.
- (5) The agricultural societies have made substantial expenditures on fixed assets.

- (6) The provincial records did not segregate depreciation reserves and other asset valuation reserves from such reserves as should be considered equity of the members.

*Saskatchewan Purchasing Associations
Financial Structure and Membership*

In 1929 purchasing associations established the Saskatchewan Co-operative Wholesale Society Limited. Its purpose was to supply its local member associations with farm supplies such as binder twine, petroleum products, etc., and with goods for home consumption such as coal, wood and a wide line of consumers' goods. The local associations sold these goods to their individual members.

A wholesale society in Saskatchewan, Consumers Co-operative Refineries Limited, was formed in 1935 for the purpose of refining and distributing petroleum products.

During the autumn of 1944 the Wholesale Society and The Refineries were merged into one group named Saskatchewan Federated Co-operatives Limited.

The basis of subscribing for capital stock in the local purchasing associations varies according to the bylaws of the individual societies but it appears that capital stock is paid up mainly through application of patronage dividends. Most of these associations operate revolving funds which revolve over periods of time dependent upon the financial position of the individual organizations.

*Operating and Financial Results of Local Purchasing
Associations in the Province of Saskatchewan during
the eight years 1936 to 1943*

The following exhibits are attached hereto :

Exhibit 4 — A chart showing the volume of business during the eight fiscal years 1936 to 1943 of :

- (a) All co-operative purchasing associations in the Province of Saskatchewan (excluding the two wholesale groups).
- (b) The two wholesale purchasing societies in the province, namely, Saskatchewan Co-operative Wholesale Society Limited and Consumers Co-operative Refineries Limited.
- (c) A group of forty selected purchasing associations in the Province of Saskatchewan.

Exhibit 5 — Statement of members' equity in all co-operative purchasing associations in the Province of Saskatchewan and in the selected group of forty such associations at the end of the 1935, 1939 and 1943 fiscal years of each of the constituents, together with details as to how such equity is invested and what it represents.

Exhibit 6 — A chart showing members' equity in all purchasing associations in the province at the end of each of the nine fiscal years 1935 to 1943.

Exhibit 7 — Statement summarizing the changes in members' equity in the group of forty purchasing associations in the province during the eight fiscal years 1936 to 1943 (showing earnings available for allocation together with the manner in which such earnings were dealt with).

From these Exhibits it will be seen that :

- (1) The number of purchasing associations in the province has increased from 194 in 1935 to 486 in 1943; the membership of these associations has increased to an even greater extent during this period — from 12,690 to 66,340.
- (2) The members' equity in all such associations (obtained from the provincial statistical records) was almost \$3,600,000 in 1943, a growth of 350% since 1935, and almost 300% since 1939. The equity per member, however, declined from some \$83. in 1935 to approximately \$54. in 1943.
- (3) These associations owned fixed assets valued at \$780,000 at the end of 1943 after applying depreciation reserves of undetermined amount.
- (4) The volume of business of all local purchasing associations increased from less than \$3,000,000 in 1936 to over \$13,000,000 in 1943.
- (5) During this same period the sales of the two wholesale societies have increased from approximately \$1,000,000. to almost \$7,500,000.; the products of the wholesale societies were, however, sold almost entirely to the locals who, in turn, sold these products to their individual members. Therefore, as in Quebec, the sales of the two wholesale societies, as shown in Exhibit 4 are substantially duplicated in the sales of the local societies; it is significant, however, that these locals now obtain over 50% of their goods from the two wholesale societies.

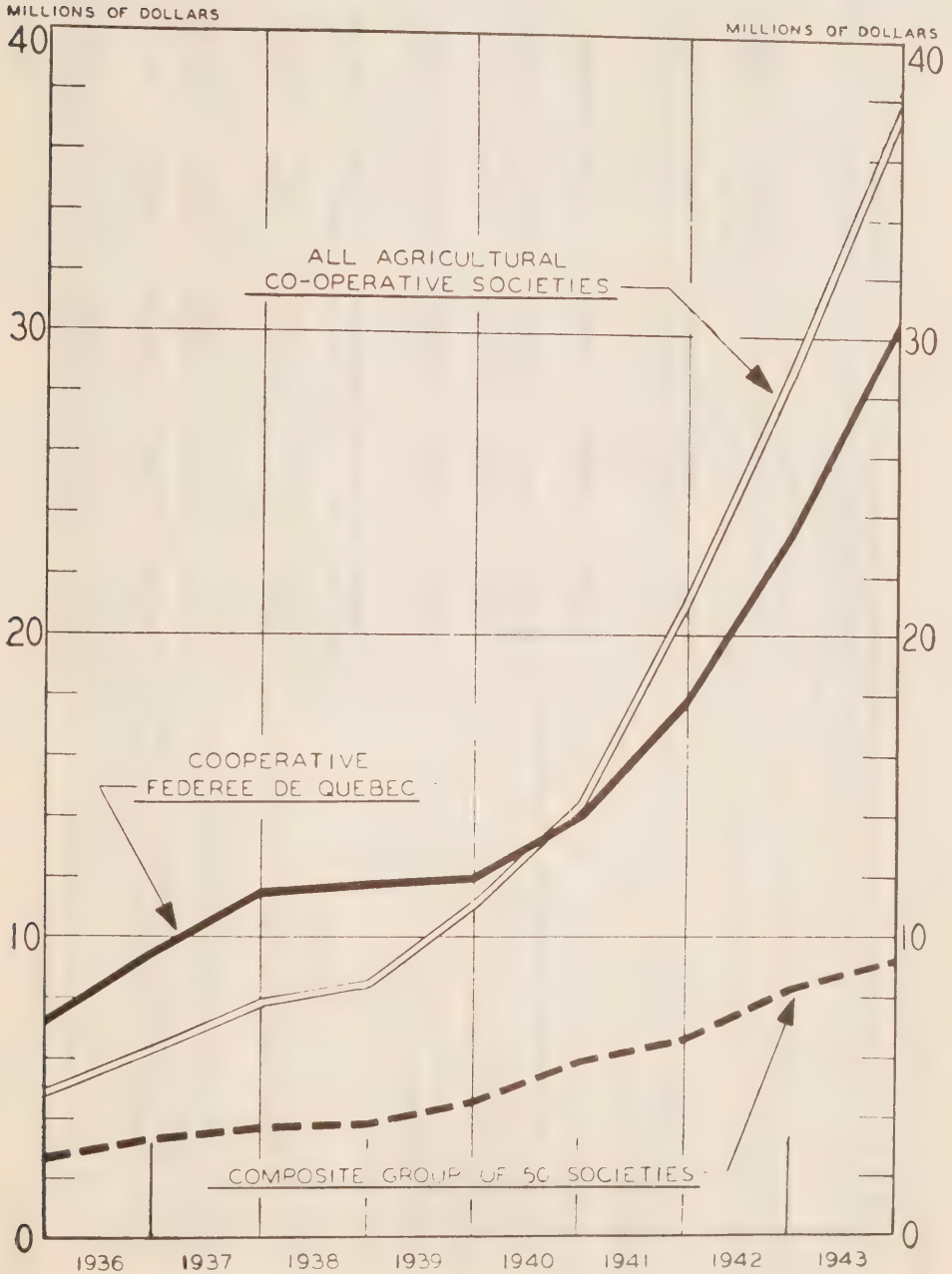
The selected group of forty purchasing associations showed substantial growth as indicated by :

- (1) Increase in equity from \$427,000 in 1935 to \$1,060,000 in 1943; the greater part of this growth occurred during the war years 1940 to 1943.
- (2) Working capital amounted to \$524,000 in 1943, or approximately 50% of total equity; working capital more than doubled during the eight-year period.
- (3) "Other assets" increased from \$27,000 in 1935 to \$278,000 in 1943; the 1943 figure includes deferred dividends of and investment in other co-operatives (principally the two wholesale societies) of \$163,000.
- (4) As shown on exhibit 4, volume of business of these forty associations increased from \$1,250,000 in 1936 to more than \$3,000,000 in 1943; 1944 sales were over \$4,000,000.
- (5) The earnings available for allocation were \$334,000 during the four years 1936 to 1939 compared with \$781,000 during the four years 1940 to 1943; these aggregate \$1,115,000 of which \$670,000 was allocated to members.
- (6) During the eight years patronage dividends paid and interest paid on capital (after deducting increase of approximately \$40,000. in paid-up capital) amounted to \$483,000. Thus the increased equity of \$632,000 consists of:

* Allocated earnings retained.....	\$188,000
Increase in unallocated surplus and reserves (including statutory reserves)	444,000
Total.....	\$ 632,000

* Includes patronage dividends allotted but not paid; patronage dividends applied on share capital and cash contributions for share capital.

**SALES OF CERTAIN GROUPS OF CO-OPERATIVES IN THE
PROVINCE OF QUEBEC
FOR THE NINE YEARS 1935 TO 1943**



PROVINCE OF QUEBEC

EQUITY OF ALL AGRICULTURAL Co-OPERATIVE SOCIETIES AND OF A SELECTED GROUP OF FIFTY SUCH SOCIETIES AT THE END OF THE 1935
1939 AND 1943 FISCAL YEARS OF EACH OF THE CONSTITUENTS TOGETHER WITH DETAILS AS TO HOW SUCH EQUITY IS INVESTED
AND WHAT IT REPRESENTS.

	All agricultural societies			Selected group of fifty agricultural societies		
	1935	1939	1943	1935	1939	1943
Number of organizations.....	158	303	544	50	50	50
Total membership.....	11,849	22,663	44,069	Not available		9,579
Equity of members (excluding reserves for contingencies and general reserves).....	\$ 776,959	\$1,670,633	\$4,304,950	\$ 379,130	\$ 606,258	\$1,095,263
Represented by :						
Capital and allocated surplus.....	\$ 486,232	\$ 826,155	\$2,557,080	\$ 230,084	\$ 321,612	\$ 562,078
Unallocated surplus.....	290,727	844,478	1,747,870	149,046	284,646	533,185
	\$ 776,959	\$1,670,633	\$4,304,950	\$ 379,130	\$ 606,258	\$1,095,263
Invested in :						
Current assets.....	\$ 849,201	\$1,889,062	\$4,345,369	\$ 465,337	\$ 751,712	\$1,234,906
Less current liabilities and loans.....	922,547	2,127,440	3,748,362	349,319	511,472	709,942
	\$ 73,346	\$ 238,378	\$ 597,007	\$ 116,018	\$ 240,240	\$ 524,964
Excess of current assets over all liabilities to the public.....	1,267,984	2,852,865	6,538,380	509,353	852,742	1,546,140
Fixed assets (gross).....						
Reserves (including reserves for depreciation, doubtful accounts, contingencies and general reserves).....	417,679	943,854	2,880,437	246,241	486,724	975,841
	\$ 776,959	\$1,670,633	\$4,304,950	\$379,130	\$ 606,258	\$1,095,263

Forward :

PROVINCE OF QUEBEC

EXHIBIT 2 (Cont'd)

EQUITY OF ALL AGRICULTURAL Co-OPERATIVE SOCIETIES AND OF A SELECTED GROUP OF FIFTY SUCH SOCIETIES AT THE END OF THE 1935
1939 AND 1943 FISCAL YEARS OF EACH OF THE CONSTITUENTS TOGETHER WITH DETAILS AS TO HOW SUCH EQUITY IS INVESTED
AND WHAT IT REPRESENTS.

	Four years 1936 to 1939	Four years 1940 to 1943	Eight years 1936 to 1943	Four years 1936 to 1939	Four years 1940 to 1943	Eight years 1936 to 1943
Forward :						
Increase or decrease :						
Equity of members	\$ 893,674	\$2,634,317	\$3,527,991	\$ 227,128	\$ 489,005	\$ 716,133
Represented by :						
Capital and allocated surplus	\$ 339,923	\$1,730,925	\$2,070,848	\$ 91,528	\$ 240,466	\$ 331,994
Unallocated surplus	553,751	903,392	1,457,143	135,600	248,539	384,139
	\$ 893,674	\$2,634,317	\$3,527,991	\$ 227,128	\$ 489,005	\$ 716,133
Invested in :						
Current assets	\$1,039,801	\$2,456,307	\$3,496,168	\$ 286,375	\$ 483,194	\$ 769,569
Current liabilities and loans	1,204,893	1,620,922	2,825,815	162,153	198,470	360,623
Excess of current assets over all liabilities and loans	\$ 165,032	\$ 835,385	\$ 670,353	\$ 124,222	\$ 284,724	\$ 408,946
Fixed assets (gross)	1,584,881	3,685,515	5,270,396	343,389	693,398	1,036,787
Reserves — increase	526,175	1,886,583	2,412,758	240,483	489,117	729,600
	\$ 893,674	\$2,634,317	\$3,527,991	\$ 227,128	\$489,005	\$ 716,133

**MEMBERS' EQUITY IN ALL AGRICULTURAL CO-OPERATIVE
SOCIETIES IN THE PROVINCE OF QUEBEC
AT THE END OF THE NINE FISCAL YEARS 1935 TO 1943**

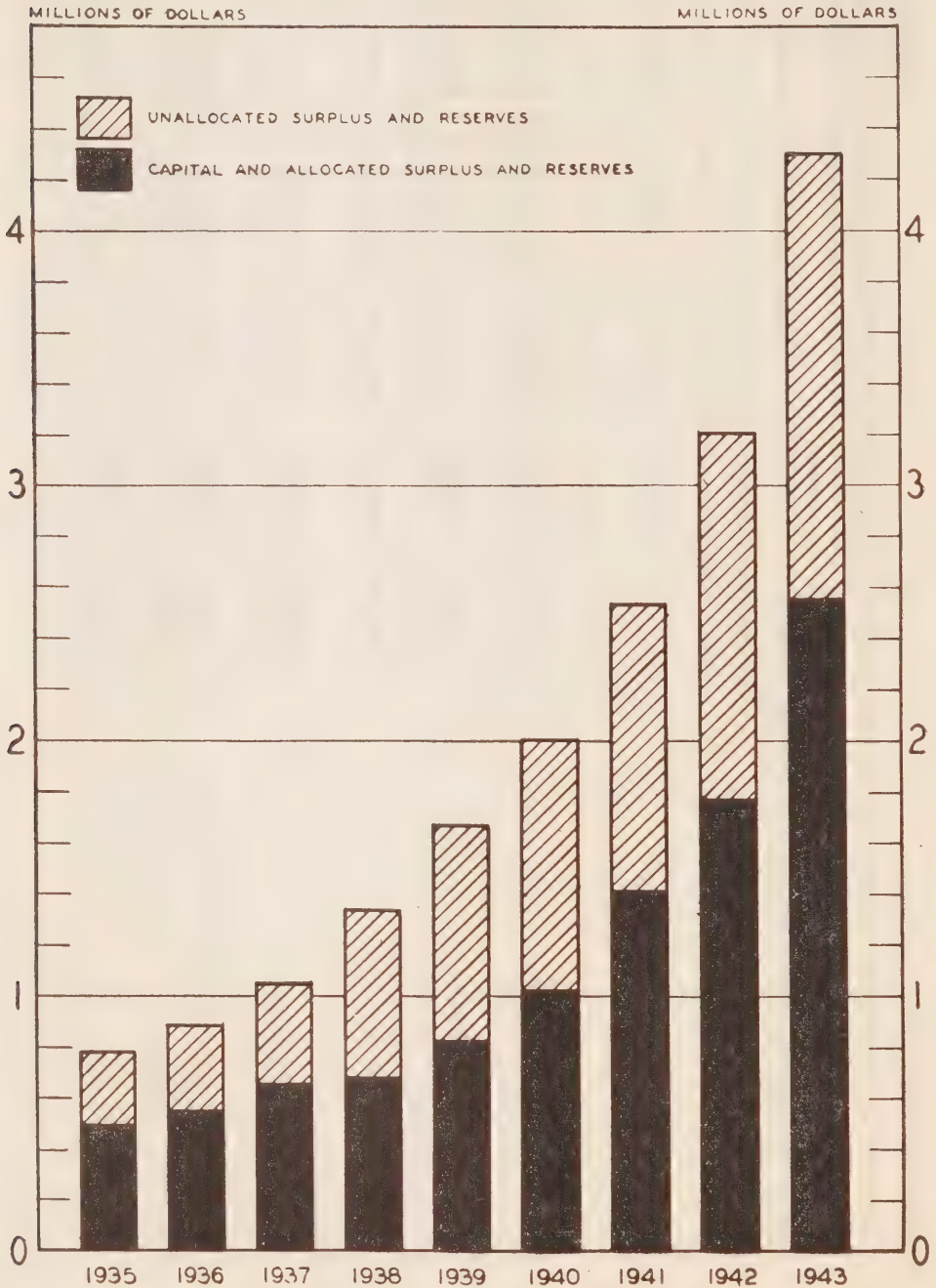
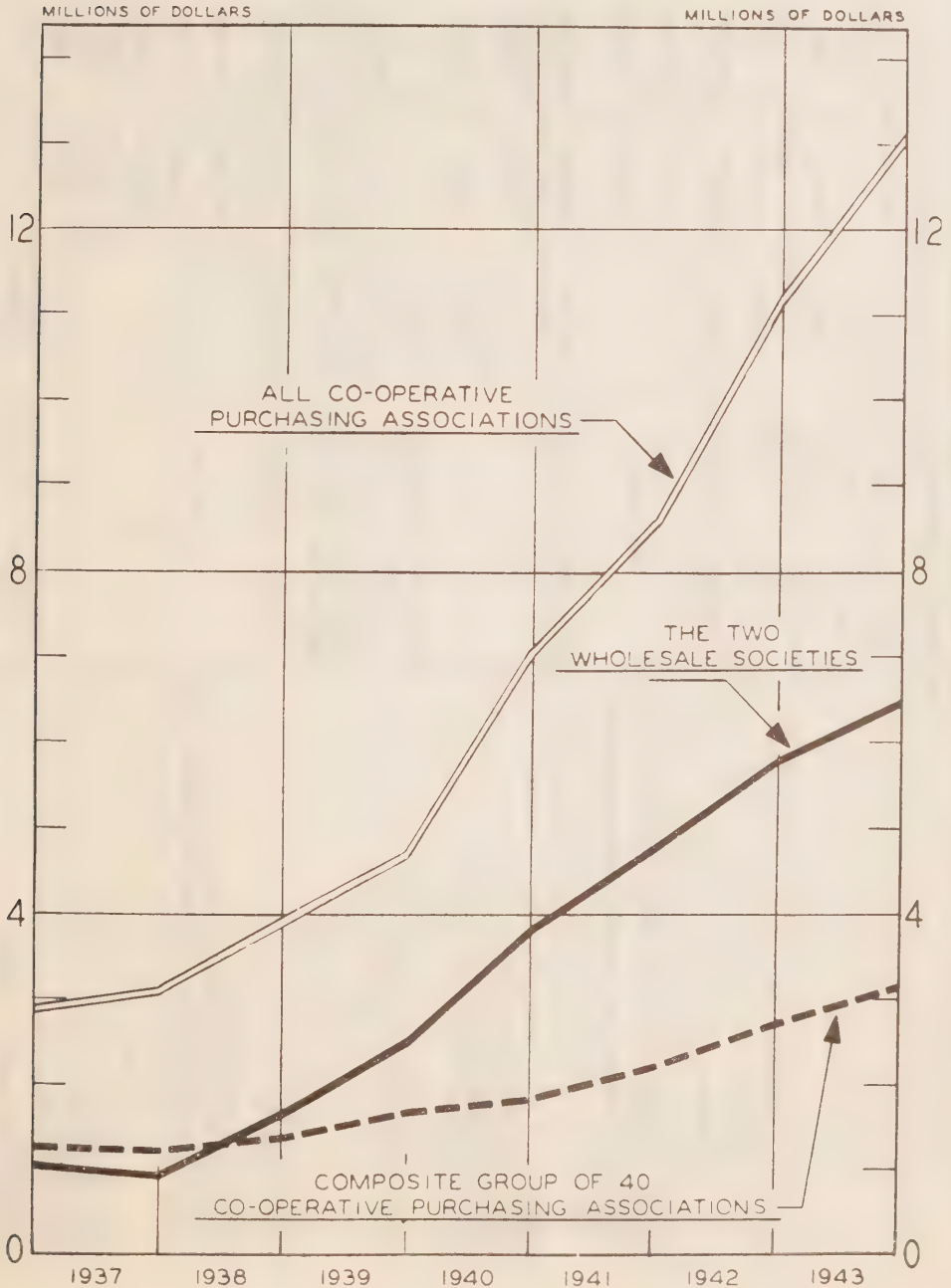


Exhibit 4

**VOLUME OF BUSINESS OF CO-OPERATIVE PURCHASING AND
WHOLESALE ASSOCIATIONS IN SASKATCHEWAN DURING
THE EIGHT YEARS 1936 TO 1943**



EQUITY OF ALL CO-OPERATIVE PURCHASING ASSOCIATIONS AND OF A SELECTED GROUP OF FORTY SUCH ASSOCIATIONS AT THE END OF THE 1935, 1939 AND 1943 FISCAL YEARS OF EACH OF THE CONSTITUENTS TOGETHER WITH DETAILS AS TO HOW SUCH EQUITY IS INVESTED AND WHAT IT REPRESENTS.

	All co-operative purchasing associations			Selected group of forty purchasing associations		
	1935	1939	1943	1935	1939	1943
Number of organizations.....	194	327	486	40	40	40
Total membership.....	12,690	28,590	66,340	4,045	Not available	Not available
Equity of members.....	\$1,053,009	\$1,246,343	\$3,587,189	\$426,976	\$605,274	\$1,059,671
Represented by :						
Capital and allocated surplus and reserves.....	Not available	available		\$235,622	\$282,840	\$423,543
Statutory reserves				191,354	322,434	636,128
Unallocated surplus and reserves (including statutory reserves)						
Invested in :	\$1,053,009	\$1,246,343	\$3,587,189	\$426,976	\$605,274	\$1,059,671
Working capital.....				\$248,244	\$338,374	\$524,033
Other assets (net).....				27,036	109,059	278,325
Assets other than fixed assets.....			\$3,710,935	151,696	157,841	257,313
Fixed assets (net).....			780,215			
Total assets.....	\$1,341,704	\$1,888,396	\$4,491,150			
Deduct liabilities to the public.....	288,695	642,053	903,961			
	\$1,053,009	\$1,246,343	\$3,587,189	\$426,976	\$605,274	\$1,059,671
Four years 1936 to 1939		Four years 1940 to 1943	Eight years 1936 to 1943	Four years 1936 to 1939	Four years 1940 to 1943	Eight years 1936 to 1943
	\$193,334	\$2,340,846	\$2,534,180	\$178,298	\$454,397	\$632,695
Increase or decrease Equity of members.....						
Represented by (see exhibit 7):						
Capital and allocated surplus and reserves.....	Not available	available		\$47,218	\$140,703	\$187,921
Unallocated surplus and reserves (including statutory re- serves).....				131,080	313,694	444,774
				\$178,298	\$454,397	\$632,695
Invested in :						
Working capital.....				\$90,130	\$185,659	\$275,789
Other assets (net).....				82,023	169,266	251,289
Fixed assets (net).....				6,145	99,472	105,617
Total assets.....	\$546,692	\$2,602,754	\$3,149,446			
Liabilities to the public — increase.....	353,358	261,908	615,266			
	\$193,334	\$2,340,846	\$2,534,180	\$178,298	\$454,397	\$632,695

Exhibit 6**MEMBERS' EQUITY IN ALL CO-OPERATIVE PURCHASING ASSOCIATIONS IN THE PROVINCE OF SASKATCHEWAN AT THE END OF EACH OF THE NINE FISCAL YEARS 1935 to 1943**

MILLIONS OF DOLLARS

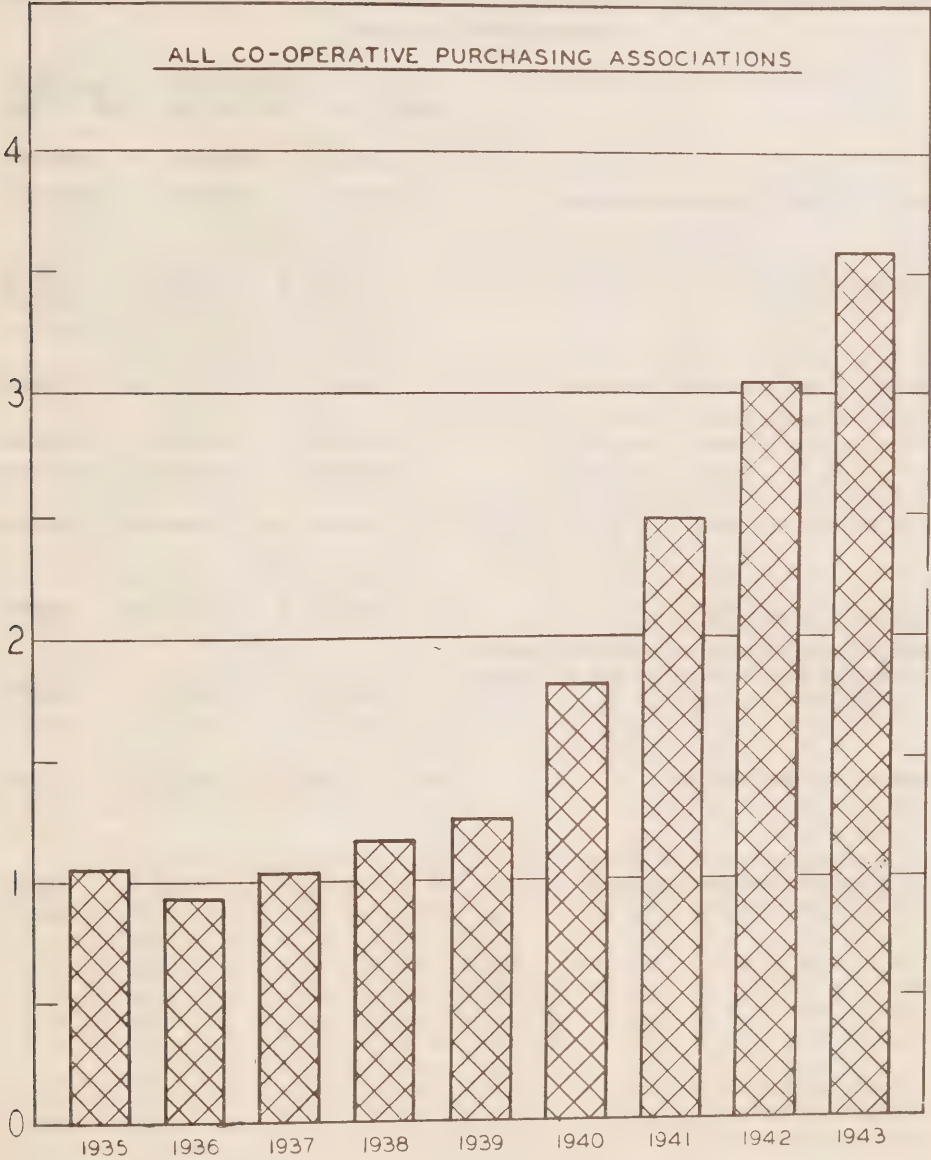


EXHIBIT 7

STATEMENT SUMMARIZING CHANGES IN MEMBERS' EQUITY IN THE FORTY SELECTED PURCHASING
ASSOCIATIONS IN SASKATCHEWAN DURING THE EIGHT FISCAL YEARS 1936 TO 1943(SHOWING EARNINGS AVAILABLE FOR ALLOCATION TOGETHER WITH THE MANNER IN WHICH SUCH
EARNINGS WERE ALLOCATED)

	Four years 1936 to 1939	Four years 1940 to 1943	Eight years 1936 to 1943
SALES.....	\$ 5,521,192	\$ 9,863,372	\$ 15,384,564
Less cost of sales and operating expenses.....	5,328,539	9,344,973	14,673,612
Operating earnings.....	\$ 192,653	\$ 518,399	\$ 710,952
Add other income.....	141,762	262,758	404,620
EARNINGS AVAILABLE FOR ALLOCATION.....	\$ 334,415	\$ 781,157	\$ 1,115,572
Deduct earnings allocated to patrons.....	203,335	467,463	670,798
EARNINGS UNALLOCATED.....	\$ 131,080	\$ 313,694	\$ 444,774
Allocated earnings as above.....	\$ 203,335	\$ 467,463	\$ 670,798
Deduct patronage dividends paid and interest paid on capital (less increase in paid up capital).....	156,117	326,760	482,877
Allocated earnings retained.....	\$ 47,218	\$ 140,703	\$ 187,921
TOTAL EARNINGS RETAINED (allocated and un- allocated) representing increased equity....	\$ 178,298	\$ 454,397	\$ 632,695

APPENDIX D

The Taxation of Co-operative Societies in Great Britain and the United States

PART I.—THE CO-OPERATIVE MOVEMENT IN GREAT BRITAIN

SECTION 1.

HISTORICAL DEVELOPMENT

While it is generally agreed that the Co-operative Movement dates from the founding of the Rochdale Equitable Pioneers Society on December 21, 1844, there were a number of earlier attempts by groups of people in Great Britain to provide themselves with services to some extent on a co-operative basis, as the term is understood today.

These earlier attempts resulted from some of the conditions which emerged in connection with the Industrial Revolution after the middle of the eighteenth century and the beginning of the nineteenth. Labour was plentiful, partly because of the high birthrate, and agricultural districts were sending large numbers of labourers into industrial areas. Child labour was prevalent and this served still further to depress wages. The small cottage producer or artisan was disappearing. But many of the new businesses, particularly spinning and weaving were small, were less efficient than larger firms, with the result that in order to retain their share of the market, they had to keep their labour costs low, and they were aided in this by a plentiful supply of labour. There was intense competition for markets, but lack of knowledge of market conditions, except perhaps amongst larger firms and merchants, led to extremely rapid fluctuation in supply and demand for manufactured goods, with consequent variations in employment. These conditions were also reflected in the retail trade, and due to fluctuations in employment, traders had to charge high prices and to extend credit. The extension of credit meant many bad debts, which in turn resulted in losses and increased costs. High costs of retailing, including losses sustained from the extension of credit frequently led to the sale of adulterated goods. Another development was the so-called "truck" system, whereby certain employers required their employees to shop at company stores.

All of these conditions led to various efforts during the latter half of the eighteenth century to improve the condition of the working classes. These efforts included poor law-legislation, attempt to organize trade unions, efforts to regulate hours of labour, to limit child labour to secure parliamentary reform, and sporadic and intermittent efforts to lower the cost of living by the organization of a number of loosely knit co-operative societies. A number of these were organized after the close of the Seven Years War, 1756-63 and there was a co-operative flour mill as early as 1760, formed in protest against high prices charged by corn millers. There is a record of a sort of a co-operative buying club in Ayrshire in 1769. There were also attempts at what might be termed producers co-operation in a co-operative society of tailors in Birmingham in 1777. These were, however, isolated efforts and no general attempt was made to organize co-operatives during the eighteenth century.

The outbreak of the Napoleonic Wars and the distress which followed led Robert Owen to formulate ambitious plans for the re-organization of the social

system. These included the establishment of large scale communities consisting of producers and consumers of different commodities, owning the means of production in common and working together to satisfy their collective needs. Owen thus sought to apply some of the lessons learned from the experience of earlier co-operative efforts to a co-ordinated social program, as a substitute for the form of business enterprise which had emerged with the Industrial Revolution. He attached little importance to co-operative purchasing, however, or to the distribution of what became known later as the patronage "divi". Furthermore, he did not emphasize democratic control, but rather autocratic, if benevolent control, at least to begin with, in the hope that with improved education the people could then be depended upon to organize the type of society which would be most conducive to their happiness and welfare.

The far reaching plans formulated by Owen ended in failure, but the influence of his teachings were reflected in the work of the Rochdale Pioneers and other co-operative leaders. The economic and social distress during and after the Napoleonic Wars led to the organization of a considerable number of co-operative societies, apart from the projects sponsored by Owen. Most of these failed or were later merged with other enterprises. One reason for these early failures was lack of uniformity in what were later recognized as co-operative practices. While the objective of these earlier societies was to lower the cost of necessities for poor people, there were no standard operating practices. Some did, indeed, distribute their surpluses in proportion to purchases, but some related distribution to share capital holdings, while some used the surplus for other purposes.

By 1840 most of these early co-operative societies had disappeared and little or nothing was left of the projects sponsored by Owen. But the conditions prevailing in the "Hungry Forties" led to the founding of the Rochdale Society. The principles and methods laid down by the Rochdale Pioneers have become synonymous with co-operation the world over. They included the following:

1. Share holding membership open to all.
2. Low fixed rate of interest on capital.
3. One member — one vote, irrespective of the amount of capital held.
4. Sales at current, i.e., generally acceptable prices with return of the net surplus to customers in proportion to purchases.
5. Sale of goods for cash — no credit.
6. Provision for investment in the Society of the proceeds of the patronage "divi".
7. Educational work amongst the members.
8. Religious and political neutrality.
9. Sale of pure and unadulterated goods.

The first contribution of the Rochdale Pioneers was that they applied some of the principles enumerated by Owen and practised to some extent by earlier societies to an enterprise with a specific, though perhaps limited objective, namely, retail trading. This was in contrast to the somewhat grandiose social scheme of Owen. It is true that the Rochdale Pioneers had social and economic aims beyond the co-operative purchasing of necessities. But the distribution of the trading surplus through the device of the patronage "divi" appealed to people with low incomes. Open membership and democratic control fostered membership interest and leadership. Cash trading was stressed to avoid dependence on "truck" shops operated by employers. Political and religious neutrality enabled the society to avoid entanglement in local factional disputes and appealed to the interests of consumers generally. Provision for the investment of the "divi" enabled those with little or no surplus funds for investment to contribute to the capital of the society, while securing their necessities at

prevailing prices. The insistence on quality goods was an attempt to protect the consumer interest against some prevailing trade practices. Education was intended, amongst other things, to emphasize the responsibility of the individual member to the society. But perhaps the chief contribution of the Rochdale Pioneers was the patronage "divi" which has become identified with co-operative practice the world over.

In spite of the practical system evolved by the Rochdale Pioneers, only a few societies were organized during the next decade. The next major step, however, in co-operative development was the enactment of the Industrial and Provident Societies Act in 1852, which was intended to facilitate the organization of co-operative societies with limited liability. A further step was an amendment which repealed the provision of the existing statute which forbade one society from holding shares in another, and limited the holding of property to one acre. This amendment made possible the organization in 1863 of what is now the Co-operative Wholesale Society. In 1868 the Scottish Societies established their own wholesale. Thereafter the English and Scottish Co-operative Movement expanded at a rapid rate.

Another development of importance was the decision of the C.W.S. in 1872 to embark upon productive enterprises under the control of the society. This meant the decline of co-operative production enterprises controlled by employees which formerly had been supported by the Wholesale.

In 1876, the Industrial and Provident Societies Act was amended to remove the restriction which precluded co-operative societies from doing a banking business. In 1872, a loan and deposit department had been opened by the C.W.S. to accept funds from member societies only, but the 1876 amendment to the Act enabled the Banking Department to accept deposits from individuals, mutual organizations, etc. The Banking Department was the natural outcome of the provision introduced by the Rochdale Pioneers for investment in and deposit with a co-operative society of patronage dividends, and other surplus funds.

In 1867, the Co-operative Insurance Company was founded to insure the property of member societies. The Insurance Society made, however, but little progress until it was taken over by the two Wholesale Societies in 1913. Since that time the Insurance Society has made extensive progress.

By contrast with retail co-operatives, which progressed rapidly after the organization of the Co-operative Wholesale Societies, the development of what might be termed agricultural co-operation, i.e., the marketing of farm products and the purchase of farm supplies, has been slow. Great Britain is predominantly an industrial country and it was natural that co-operation should first develop as a method of improving the position of the working class population in the towns and the cities. By and large, leaders of the Consumers Co-operative Movement favored ownership of the means of production by consumers societies and for some time gave little encouragement to the co-operative ownership of the means of production or marketing by producers, either agricultural or industrial. The growth of agricultural co-operation in England was, however, assisted by the organization of the Agricultural Organization Society in 1901. While this organization terminated its activity in 1924, some encouragement has been given to co-operative organization work by the National Farmers Union. The fact that the C.W.S. manufactures many products such as feed stuffs in the course of milling which agricultural societies have to buy has encouraged trade relationship between the wholesale and agricultural societies. The consumers movement is disposed to look with favor on organizations which are co-operative in the widest sense of the term, and this has made the C.W.S. give encouragement to marketing societies handling products which the consumer societies have to buy. Since the failure of the Agricultural

Co-operative Wholesale Society in 1924 the C.W.S. has given assistance to agricultural co-operative societies, sometimes by way of finance, sometimes by way of temporary supervision. Information given by officials of agricultural co-operative societies indicates their belief that these societies have received fair and considerate treatment from the C.W.S.

The Scottish Agricultural Organization Society was organized in 1905 for the general object of promoting and giving assistance to agricultural co-operative societies. The relations between the Agricultural Co-operative Societies in Scotland and the Scottish Co-operative Wholesale Society are not as well developed as in the case of the English Co-operative Wholesale Society and the Agricultural Co-operative Societies in England.

The Welsh Agricultural Organization Society was organized in 1922 to assist farmers in Wales to organize for business purposes on co-operative lines.

The Co-operative Union, a federal body, comprising most of the co-operative societies in Great Britain, formulates policies for the whole movement and acts as a defence organization. It also assists in the settlement of disputes between member societies. Membership in the Union provides some guarantee of the co-operative character of its member societies. In addition the Union provides special services for its members, including technical assistance, as well as legal, accounting, labour, agricultural, statistical, educational and publicity services. Nearly all member societies of the Union are incorporated under the Industrial and Provident Societies Act.

SECTION II

BRITISH CO-OPERATIVE LEGISLATION

All co-operative societies in Great Britain are incorporated under the Industrial and Provident Societies Act, 1893 and 1913. The enactment of this legislation in 1852 was responsible in no small degree for the expansion of the co-operative movement. At present incorporation under this Act is a prerequisite for a society to be recognized as a Co-operative, and knowledge of its chief provisions is necessary to any survey of the British Co-operative Movement. The chief provisions are in the paragraphs which follow.

A society may be incorporated under this Act by seven persons "for carrying on any industry, business, or trades specified or authorized by its rules, whether wholesale or retail, and including dealing of any description with land. Provided that—(a) No member other than a registered society shall have or claim any interest in the shares of the society exceeding two hundred pounds, and (b) In regard to the business of banking, the society shall be subject to the provisions hereinafter contained".

The foregoing makes it clear that a co-operative society can be organized for carrying on almost any kind of trade, business or service. Individual investment in a society is limited to two hundred pounds, but this limit does not apply to societies which are members of, for example, the C.W.S.

The word "limited" must be the last word in the name of every society registered under the Act.

No society with *withdrawable* share capital shall carry on the business of banking, provided that the taking of deposits of not more than ten shillings in any one payment, nor more than twenty pounds from one depositor shall not be included in the business of banking, within the meaning of the Act, but no society which takes such deposits shall make any payment on withdrawable capital while any claim due on account of any such deposit remains unsatisfied.

The effect of the foregoing is that societies carrying on a banking business

such as the C.W.S. do not have share withdrawable capital, although its shares are transferable. On the other hand, retail societies with withdrawable share capital, which accept deposits, have to recognize the priority of the latter with respect to withdrawal as compared with withdrawable shares.

Subject to an appeal to the courts by applicants for registration, i.e., incorporation, the Registrar may refuse to register a society under the Act.

The Registrar may cancel the registry of a society if the number of members has been reduced to less than seven, if the registration has been obtained by fraud or mistake, or if the society has ceased to exist. He also may, with the approval of the Treasury, cancel the registry of a society on proof that the society exists for an illegal purpose, or has wilfully, and after notice from Registrar, violated any of the provisions of the Act.

The registration of a society renders it a body corporate by which it may sue and be sued, with perpetual succession, with limited liability, and vests in the society all property for the time being vested in any person in trust for the society.

The rules of a registered society bind the society and all members thereof and all persons claiming through them, respectively, to the same extent as if each member had subscribed his name and affixed his seal thereto, and there were contained in the rules a covenant on the part of such members to conform thereto subject to the provisions of the Act.

All monies payable by a member to a registered society shall be a debt recoverable from such member in the courts. In addition, a society shall have a lien on the shares of any member for any debt due to it by him and may set off any sum credited to the member thereon in, or towards the payment of such debt.

A minor above the age of sixteen and under the age of twenty-one may be a member, but may not hold office in the society.

A society may hold, purchase or take on lease in its own name, land, and may sell, exchange, lease, or otherwise dispose of or utilize same.

A society may invest any part of its capital in securities in which trustees are authorized by law to invest, in securities of any local authority as defined in the local loans Act, and in the shares of securities of any other society or of a Building Society, or of any company registered under the Companies Act, or incorporated by Act of Parliament, provided that no such investment be made in the shares of any society or company except with limited liability. This provision makes possible the establishment of federations of societies such as the C.W.S.

The rules of a society may provide for advances of money to members on the security of real or personal property or in the case of a society registered to carry on a banking business, in any manner customary to the conduct of such business.

A register of members must be kept showing the date on which any person became a member, the date upon which any person ceased to be a member, the number of shares held by each, and the amount paid or agreed to be considered as paid on such shares.

The rules of a society must contain a provision for the settling of disputes between a member and the society and the parties to the dispute may, unless the rules otherwise direct, refer a dispute to the Registrar.

Every registered society is required to have its accounts audited by one or more public auditors appointed by the Treasury for the purposes of the Act. A copy of the annual return in the form prescribed by the Registrar, must be forwarded to him not later than March 31st in every year. Provision is also made for inspection by the Registrar, if he thinks fit, upon the application of ten members of the society.

The Act also designates the manner in which a society may be wound up, convert itself into a joint stock company, amalgamate with another society, etc.

Provision is made for the bonding of officials handling money in behalf of the society.

The Treasury is authorized to make regulations respecting registry, and other procedure under the Act, and with reference to the duties and functions of the Registrar. The Registrar appointed to administer the Friendly Societies Act is entrusted with the administration of the Industrial and Provident Societies Act.

The rules or bylaws of co-operative societies and amendments thereto must be approved by the Registrar. Annual returns must be prepared in a manner acceptable to him, and on the basis of such returns, annual statistics are compiled regarding the operations and position of co-operative societies in England, Scotland and Wales.

Societies in Northern Ireland are registered under a similar Act administered by the Government of that country. The Act governing the incorporation of Co-operative Societies in Eire is similar to the Industrial and Provident Societies Act.

It will be observed that the provisions of The Industrial and Provident Societies Act are rather general with respect to co-operative practices. More detailed provisions are set forth in the rules of each society, which must be registered under the Act.

Schedule II of the Industrial and Provident Societies Act prescribes that the rules of a registered society shall provide for the following:

- "1. Object, name, and registered office of the society.
2. Terms of admission of the members, including any society or company investing funds in the society under the provisions of this Act.
3. Mode of holding meetings, scale and right of voting, and of making, altering, or rescinding rules.
4. The appointment and removal of a committee of management, by whatever name, of managers, or other officers, and their respective powers and remuneration.
5. Determination of the amount of interest, not exceeding two hundred pounds sterling, in the shares of the society which any member other than a registered society may hold.
6. Determination whether the society may contract loans or receive money on deposit subject to the provisions of this Act from members or others; and, if so, under what conditions, on what security, and to what limits of amount.
7. Determination whether the shares or any of them shall be transferable; and provision for the form of transfer and registration of the shares, and for the consent of the committee thereto; determination whether the shares or any of them shall be withdrawable, and provision for the mode of withdrawal and for payment of the balance due thereon on withdrawing from the society.
8. Provision for the audit of accounts and for the appointment of auditors or a public auditor.
9. Determination whether and how members may withdraw from the society, and provision for the claims of the representatives of deceased members, or the trustees of the property of bankrupt members, and for the payment of nominees.
10. Mode of application of profits.

11. Provisions for the custody and use of the seal of the society.
12. Determination whether, and by what authority, and in what manner, any part of the capital may be invested."

SECTION III

WHEAT CONSTITUTES A CO-OPERATIVE

Careful scrutiny of applications for the registration of co-operative societies, together with general agreement by co-operative officials as to what constitutes accepted co-operative practice, tends to ensure that only bona fide co-operative societies will be registered under the Industrial and Provident Societies Act. The fact that the Companies Act provides that no joint stock company may use the word "Co-operative" as a part of its registered name without special permission of the Board of Trade, affords further protection against the possibility that companies which are not co-operative will attempt to masquerade as such.

Additional assurance that only bonafide co-operative societies will be registered under the Industrial and Provident Societies Act is provided by Section 10 of the Prevention of Fraud (Investments) Act, 1939. The Section sets out new conditions governing the registration of societies and then deals with the position of existing societies and the circumstances under which they may remain on the register or may be removed from it. The general object is to confine new registrations to genuine co-operative and philanthropic societies within the meaning of the Act, and to remove from the register societies which are not genuine co-operative or philanthropic societies, if they invite persons to invest with them. The latter do not need to go out of business, but may, by means of special resolutions, bring themselves under the Companies Act.

Subsection (1) of section 10 of the Prevention of Fraud (Investments) Act 1939 reads as follows:

"A Society shall not be registered under the Industrial and Provident Societies Act, 1893, unless it is shown to the satisfaction of the registrar—

- (a) that the society is a bona fide co-operative society, or
- (b) that, in view of the fact that the business of the society is being, or is intended to be, conducted —
 - (I) mainly for the purpose of improving the conditions of living, or otherwise promoting the social well-being, of members of the working classes, or
 - (II) otherwise for the benefit of the community, there are special reasons why the society should be registered under the said Act rather than as a company under the Companies Act, 1929".

The Registrar is given authority, with the approval of the Treasury, to cancel the registry of an existing society if at any time it appears to him that neither of the conditions in paragraphs (a) and (b) of subsection (1) section 10 (see above) is fulfilled in the case of that society. In addition, if it appears to the Registrar that it would also be in the interests of persons who have invested or deposited money with the society that the society be wound up, he may present to the court a petition for winding up the society.

It is thus apparent that the question may arise as to what constitutes "a bona fide co-operative society". In a special circular issued to co-operative societies respecting section 10 of The Prevention of Fraud (Investments) Act the Registrar attempts to deal with this question, not by a legal definition of

what constitutes a co-operative society, but by stating what should be the objects and practices of a genuine co-operative. The following is an extract from the circular :

“NEW CONDITIONS OF REGISTRATION — SUBSECTION (1) :

It is necessary for existing societies to consider forthwith whether they fulfil one or other of the conditions specified in Subsection (1), i.e. whether they can satisfy the Registrar that they fall within one or other of the classes described in (A), (B), and (C) below.

(A) Bona fide Co-operative Societies-Subsection (1) (a).

The Act does not affect any society which can satisfy the Registrar that it is a bona fide co-operative society, and the nature of such a society may be indicated in a general way by the following observations :

(a) An investment society as defined in Subsection (o) is expressly excluded, i.e., a society which is carried on with the object of making profits mainly for the payment of interest on money invested with or through the society cannot be recognized under the Act as a true co-operative society.

(b) The society must so conduct its business as to show that its main purpose is the mutual benefit of its members, and that the benefit enjoyed by a member depends upon the use which he makes of the facilities provided by the society and not upon the amount of money which he invests in the society. In a retail society or a social club run on co-operative line (to mention two familiar examples), a person who takes up the minimum shareholding necessary to qualify for membership participates in the benefits of membership in proportion to the amount of his purchases from the society or the extent to which he uses the amenities of the club, as the case may be. In other words, the profits in the one case are distributed mainly as dividends on purchases and not as dividend on capital, and in the other case are devoted to improving and cheapening the facilities of the club. By contrast a society which is not co-operative usually aims at making profits with a view to applying them on the basis of the amount of money invested or to the advantage of promoters and the like.

In the case of such societies as agricultural co-operative societies, although the member may be required to take up shares in proportion to the amount of his land or stock, etc., the society nevertheless exists primarily to provide benefits for the member in proportion to the use which he makes of the marketing or other facilities furnished by the society.

(c) There must be no artificial restriction of membership with the object of increasing the value of proprietary rights or interests. On the other hand there may be reasons for restricting membership which would not offend the co-operative principle, e.g., a club's membership may be limited by the size of its premises; a society may confine its activities to a particular class of persons or to a particular area. By contrast, if the membership were limited in order to give the maximum benefit to a restricted number of persons the society might not be regarded as truly co-operative.

(d) A rule providing that any persons should have more than one vote might suggest *prima facie* that the society was not a true co-operative society.

(e) The return on share and other capital must not exceed a moderate rate which may vary according to circumstances but should approximate to the minimum necessary to obtain such capital as is required to carry out the primary objects of the society.

(B) Societies for improving the conditions of living or otherwise promoting the social well-being of the working classes — Subsection (1) (b) (i).

This is intended to cover societies which are conducted solely or mainly for philanthropic purposes connected with the social welfare of the working classes, e.g., slum-clearance societies which pay little or no interest on capital and are often largely supported by voluntary donations; housing societies formed by employers on a non-profit-making basis for the benefit of their employees; societies providing facilities for the education, recreation, etc., of the working classes.

It will be observed that the Act requires societies in this category to satisfy the Registrar that there are special reasons why they should be registered under the Industrial and Provident Societies Act rather than under the Companies Act. The effect of this provision is that societies must be able to show not merely that their objects are such as are mentioned here, but that they are entitled to the privileges of registration under the Industrial and Provident Societies Act because, for instance, they are not carrying on a profit-making business and need not be subjected to the various protective requirements (e.g., as to prospectuses) which are contained in the Companies Act but not in the Industrial and Provident Societies Act.

(C) Societies for the benefit of the community—Subsection (1) (b) (ii).

The societies in this category must be conducted solely or mainly for the benefit of the community at large, e.g., for the preservation of rural amenities, the promotion of public health, education, etc., but here again there must be special features, as indicated in the preceding paragraph, to justify registration under the Industrial and Provident Societies Act".

It can therefore be concluded that one of the advantages enjoyed by the British Co-operative Movement, as compared with the movement in Canada, is uniform co-operative legislation administered by a Department of the Government, with special powers to scrutinize carefully new applications for incorporation, to determine what constitutes acceptable co-operative practice and to remove from the register societies which do not adhere to generally accepted co-operative principles and practices.

SECTION IV

OPERATIONS OF CO-OPERATIVE SOCIETIES OF DIFFERENT TYPES

As previously indicated, the enactment of the Industrial and Provident Societies Act in 1852, together with subsequent amendments, has facilitated greatly the development of the Co-operative Movement in England, Scotland and Wales. The following is a brief description of the main types of Co-operative Societies registered under the Act, together with comparative statistics for 1943, 1942, 1936 and 1933, as computed by the Registrar on the basis of annual returns forwarded to him in accordance with the provisions of the Industrial and Provident Societies Act. In considering these statistics it should be borne in mind that 1933 and 1936 represented a period of relatively low employment and business activity in contrast with 1942 and 1943, which were years of intense business activity, together with some inflation of prices.

Retail societies

The most important type of co-operative activity in Great Britain is that of the retail societies, each operating one or more stores or shops for the distribution, chiefly of consumers goods in towns and cities. In 1943, there were 1045 societies operating general supply stores, and 55 rendering retail services of a miscellaneous type. Seventy-nine trading societies still registered under the Act but which do not pay a patronage dividend out of surplus are considered "non-co-operative" in accordance with the provisions of Section 10 of the Prevention of Frauds (Investments) Act, 1939, are included in the totals, but since their volume of business is relatively small, their inclusion in the table makes no material difference.

The following analysis of Co-operative Retail trade prepared by the Co-operative Union shows the relative importance of the various services rendered by co-operative stores or shops :

TABLE I
Analysis of Co-operative Retail Trade

Department	Trade		Percentage of Total Trade	
	1939	1943	1939	1943
	£ millions	£ millions		
Grocery, Bread, and Confectionery.....	155.5	186.1	57.11	56.15
Butchery.....	22.8	27.2	8.37	8.19
Greengrocery, Fruit, and Fish.....	4.4	5.0	1.62	1.50
Dairy.....	24.8	38.0	9.11	11.46
Total Foodstuffs.....	207.5	256.3	76.21	77.30
Drapery.....	20.4	22.6	7.49	6.80
Tailoring and Outfitting.....	6.8	6.9	2.50	2.07
Boot and Shoe.....	6.7	9.6	2.46	2.91
Furnishing and Hardware.....	8.7	7.1	3.19	2.14
Total Dry Goods.....	42.6	46.2	15.64	13.92
Coal.....	13.8	16.9	5.07	5.10
Chemist.....	2.5	4.6	0.92	1.40
Other Departments.....	5.9	7.6	2.16	2.28
Total Trade.....	272.3	331.6	100.00	100.00

The following table respecting the statistical position of retail societies was prepared by the Registrar of Industrial and Provident Societies. Any differences in totals as compared with the table prepared by Co-operative Union are due to the fact that the latter includes member societies in Northern Ireland, while on the other hand all British Retail Co-operative Societies are not members of the Union :

CO-OPERATIVE RETAIL SOCIETIES IN ENGLAND, SCOTLAND AND WALES

TABLE II

Class of Society	Number of Societies on Register at end of Year	Number of Members	Sales (1)	Total Salaries and Wages	Surplus on Year's Working (3)	Principal Allocations of Surplus (2)			Liabilities			Net Balance Dis-posable and Reserves (2)	Assets			Total Assets	
						Interest on Shares	Dividends on Sales	Share Capital	Depositors	Loans	Other Liabilities		Stocks	Invest-ments	Other Assets		
Co-OPERATIVE :			£	£	£	£	£	£	£	£	£	£	£	£	£	£	
General Supply Stores.....	1943	1,045	8,937,326	326,858,858	37,785,000	39,358,733	5,966,420	30,129,020	199,488,081	8,065,484	33,535,758	28,168,656	32,336,460	26,778,556	205,131,458	69,684,425	301,594,439
	1942	1,037	8,848,410	314,617,805	36,965,688	38,135,902	5,468,231	29,309,228	178,098,806	7,233,434	29,320,867	26,819,826	30,871,739	27,939,579	173,145,335	71,259,758	272,344,672
	1943	55	18,710	469,473	71,915	24,577	2,328	11,921	46,465	.....	44,054	42,087	72,754	26,865	50,713	127,782	205,360
	1942	55	23,716	457,004	68,629	21,127	1,992	13,641	46,916	.....	44,766	42,166	67,176	24,673	50,141	126,210	201,024
Total.....	1943	1,100	8,956,036	327,328,331	37,856,915	39,383,310	5,968,748	30,140,941	199,534,546	8,065,484	33,579,812	28,210,743	32,409,214	26,805,421	205,182,171	69,812,207	301,799,799
	1942	1,092	8,872,126	315,074,809	37,034,317	38,157,029	5,470,223	29,322,869	178,145,722	7,233,434	29,365,633	26,861,992	30,938,915	27,964,252	173,195,476	71,385,968	272,545,696
Non-Cooperative.....	1943	29	19,633	1,406,324	110,606	164,166	19,714	.....	371,043	.....	289,695	184,409	349,112	202,365	120,033	871,861	1,194,259
	1942	30	19,724	1,209,074	98,745	114,121	7,556	9,770	367,202	.....	282,913	150,492	306,910	170,439	105,133	831,945	1,107,517
Grand Total.....	1943	1,129	8,975,669	328,734,655	37,967,521	39,547,476	5,988,462	30,140,941	199,905,589	8,065,484	33,869,507	28,395,152	32,758,326	27,007,786	205,302,204	70,684,068	302,994,058
	1942	1,122	8,891,850	316,283,883	37,133,062	38,271,150	5,477,779	29,332,639	178,512,924	7,233,434	29,648,546	27,012,484	31,245,825	28,134,691	173,300,609	72,217,913	273,653,213
	1936	1,118	7,783,466	233,463,889	29,055,107	28,361,778	4,863,509	21,779,715	142,285,235	5,849,416	24,445,294	12,683,745	24,066,863	18,807,393	128,423,496	62,099,664	209,330,553
	1933	1,238	6,882,043	197,610,157	25,250,061	23,725,835	4,765,739	17,956,497	123,981,112	5,117,865	19,195,769	9,322,880	20,599,837	17,297,980	105,610,083	55,309,400	178,217,463

(1) Including sales of goods purchased from Wholesale and Productive societies by Retail Societies.

(2) Including allocations of surplus proposed but not formally sanctioned at the year end.

(3) Before charging income tax.

(4) Excluding banking business.

(5) These totals have been adjusted to eliminate duplication.

Principal Wholesale Societies

The second most important type of co-operative activity is that of the three principal wholesale societies, namely, the Co-operative Wholesale Society, the Scottish Co-operative Wholesale Society and the English and Scottish Joint Co-operative Wholesale Society. The first two are federations of nearly all the retail trading societies in England, Scotland and Wales, while the Joint Co-operative Wholesale Society is owned and controlled by the C.W.S. and S.C.W.S. A number of retail societies are members of both the C.W.S. and the S.C.W.S., which explains the difference in corporate membership as compared with the number of retail societies listed in Table II above.

The wholesales act not only as buying agents for their member societies, but engage extensively in the production or merchandising of such commodities and services as food and tobacco, farming and dairying, clothing, soap, candles and starch, textiles, mining and quarrying, building and wood working, paper making and printing, metal and engineering, drugs and chemicals, together with miscellaneous services of various types. In 1942, the value of commodities produced by the C.W.S., the S.C.W.S. and E. and S. Co-operative Wholesale was £65,109,737, or 32.7% of the total sales of these organizations. The productions of the three wholesales handled by retail societies comprised 19.6% of the total retail sales of the latter.

Another service rendered by the Co-operative Wholesale Society is that of banking through a special department. Accounts are maintained with the banking department by Co-operative Societies, Trade Unions, Clubs, Mutual Organizations and by individual depositors. In 1944, there was a total of 51,146 current accounts and 36,948 deposit accounts. Total deposits and withdrawals for 1943 were £1,075,236,123.

The Co-operative Wholesale Society also operates a Health Insurance Section in accordance with the provisions of the National Health Insurance Act. In 1944, membership in the section was 677,000. The section provides sickness, disablement and maternity benefits, as well as dental services, convalescent, home treatment, medical and surgical appliances, nursing benefits and ophthalmic benefits.

Both the C.W.S. and the S.C.W.S. have opened retail branches where it appeared that the organization and operation of retail societies under local control and management was not feasible. Organization of the retail trade by the wholesales has, however, not assumed much relative importance.

The following table excludes the banking and health insurance operations of the C.W.S.

PRINCIPAL WHOLESALE SOCIETIES

TABLE III

Class of Society	Number of Societies on Register at end of Year	Number of Members	Sales (1)	Total Salaries and Wages	Surplus on Year's Working (3)	Principal Allocations of Surplus (2)			Liabilities			Net Balance Disposable and Reserves (2)	Assets			Total Assets
						Interest on Shares	Dividends on Sales	Share Capital	Depositors	Loans	Other Liabilities		Stocks	Investments	Other Assets	
			£	£	£	£	£	£	£	£	£	£	£	£	£	£
Co-operative Wholesale Socy. Ltd. (4) 1943	1	998	166,834,649	7,724,271	7,977,581	642,962	4,602,022	17,385,070	94,366,365	16,285,375	11,652,835	14,982,263	10,125,621	4,283,009	140,263,278	154,671,908
1942	1	1,005	157,395,338	7,733,757	6,854,685	627,424	4,407,598	16,969,055	76,116,828	13,012,004	10,908,448	13,787,515	10,273,028	4,429,582	116,091,240	130,793,850
Scottish Co-operative Wholesale Socy. Ltd. 1943	1	546	35,236,977	2,139,954	1,436,840	83,598	1,031,016	2,134,415	15,467,842	.....	1,846,144	3,196,752	1,304,291	18,686,378	2,654,484	22,645,153
1942	1	562	33,770,149	2,047,892	1,377,873	82,521	1,034,559	2,075,895	12,546,453	.....	1,658,511	3,072,422	1,463,577	15,383,553	2,506,151	19,353,281
English and Scottish Joint Co-operative Wholesale Socy. Ltd. 1943	1	2	8,325,364	265,585	784,693	100,333	460,650	2,408,000	.....	.....	282,678	512,141	927,664	29,609	2,245,546	3,202,819
1942	1	2	9,428,689	279,635	913,407	100,333	762,257	2,408,000	.....	.....	94,511	733,038	808,692	30,482	2,396,375	3,235,549
Total (5) 1943	3	1,544	203,470,306	10,129,810	9,638,131	726,560	5,633,038	19,519,485	109,834,207	16,285,375	13,781,657	18,430,339	12,357,576	20,330,179	145,163,308	177,851,063
1942	3	1,567	192,615,196	10,061,284	8,283,375	709,945	5,442,157	19,044,950	88,663,281	13,012,004	12,661,470	17,080,552	12,545,297	16,923,194	120,993,766	150,462,257
1936	3	1,829	129,411,577	9,163,889	4,547,293	649,546	2,649,471	16,000,472	69,592,931	7,237,162	7,267,349	11,248,238	11,873,818	11,977,880	87,494,454	111,346,152
1933	3	1,880	100,171,098	7,404,726	2,823,910	609,801	1,803,807	12,521,501	49,851,157	4,569,126	5,846,771	9,985,681	9,270,273	9,788,143	63,715,820	82,774,236

(1) Including sales of goods purchased from Wholesale and Productive societies by Retail Societies.

(2) Including allocations of surplus proposed but not formally sanctioned at the year end.

(3) Before charging income tax.

(4) Excluding banking business.

(5) These totals have been adjusted to eliminate duplication.

Other Wholesale and Productive Societies

In this group there are three main types, organized primarily for rendering services to retail societies. The first is comprised of district federations of retail societies formed mainly for the purpose of buying goods and distributing them amongst the retail societies which are members, as for example the operation of a creamery, bakery, laundry, etc. Another group is represented by productive and service societies, such as the production of clothing, footwear and the operation of a printing establishment. A number of these productive societies provide for a measure of workers control, as well as for control by retail societies which are members. The method of distributing the surplus varies to some extent, especially where there is a degree of workers' control. Usually a fixed rate of interest is paid on share and loan capital, while the balance may be distributed as an additional bonus on share capital, a bonus for the employees and a patronage dividend to customers. In addition, the group includes a number of special service societies. The financial position is summarized in the following table.

OTHER WHOLESALE AND PRODUCTIVE SOCIETIES

TABLE IV

Class of Society	Number of Societies on Register at end of Year	Number of Members	Sales (1)	Total Salaries and Wages	Surplus on Year's Working (3)	Principal Allocations of Surplus (2)			Liabilities			Net Balance Disposable and Reserves (2)	Assets			Total Assets
						Interest on Shares	Dividends on Sales	Share Capital	Depositors	Loans	Other Liabilities		Stocks	Investments	Other Assets	
			£	£	£	£	£	£	£	£	£	£	£	£	£	£
Co-Operative.....1943	127	23,188	12,766,028	2,018,909	1,497,095	85,614	1,009,068	1,999,090	5,248	3,402,259	937,529	1,989,500	782,154	4,131,283	3,420,189	8,333,626
1942	122	23,246	11,383,453	1,956,515	1,246,114	80,198	821,381	1,971,053	3,085	2,863,607	980,500	1,819,288	814,175	3,471,965	3,351,393	7,637,533
Non-Cooperative.....1943	10	5,266	42,269	19,669	2,864	23	.....	2,528	.....	1,817	9,944	1,499	6,919	1,816	6,553	15,288
1942	9	464	29,224	12,844	1,518	.....	.....	1,700	.....	1,184	6,791	2,501	6,764	1,046	4,366	12,176
Total.....1943	137	28,454	12,808,297	2,038,578	1,499,959	85,637	1,009,068	2,001,618	5,248	3,403,576	947,473	1,990,999	789,073	4,133,099	3,426,742	8,348,914
1942	131	23,710	11,412,677	1,969,359	1,247,632	80,198	821,381	1,972,753	3,085	2,864,791	987,291	1,821,789	820,939	3,473,011	3,355,759	7,649,709
1936	149	42,125	8,312,690	1,779,591	647,416	77,840	388,274	1,971,007	154	2,429,701	570,904	1,306,197	613,107	3,012,219	2,652,637	6,277,963
1933	141	42,026	6,020,598	1,586,603	454,055	77,541	283,762	1,705,434	156	2,031,580	412,265	964,356	577,000	2,419,669	2,117,322	5,113,791

(1) Including sales of goods purchased from Wholesale and Productive societies by Retail Societies.

(2) Including allocations of surplus proposed but not formally sanctioned at the year end.

(3) Before Charging income tax.

(4) Excluding banking business.

(5) These totals have been adjusted to eliminate duplication.

Agricultural Co-operative Societies

The retail Co-operative Societies, together with the wholesale and productive societies which provide them with goods and services constitute by far the most important part of British Co-operative Development. There has, however, been a considerable development of Agricultural Co-operation in Great Britain, particularly in recent years. The following is a brief summary of the various types of Agricultural Co-operative Societies, based on information compiled by the Registrar in accordance with the provisions of the Industrial and Provident Societies Act.

Farmers Requisites and Supply Societies correspond to some extent to co-operatives in Canada, which handle farm supplies. While they market farm products for their members, their main activity is that of handling farm requisites (supplies). Separate figures for 1933 respecting this type of co-operative activity were not obtained, but are included in the totals for Agricultural Societies in that year.

TABLE V
Farmers Requisites and Supply Societies

—	1943	1942	1936
Number of Societies.....	194	197	227
Number of Shareholding Members.....	92,868	90,824	79,111
Requirements, etc. (Sales).....	£ 12,520,413	£ 12,316,206	£ 9,133,419
Produce (Sales).....	5,346,235	2,932,737	1,228,941
Surplus on Year.....	768,162	668,618	322,516
Share Capital.....	1,356,810	1,327,358	1,120,327
Loans from Members.....	188,688	178,371	*669,421
Net Balance of Profit and Reserve.....	1,563,231	1,405,492	823,735
Total Assets.....	4,736,864	4,236,000	3,416,594

* Includes loans from other sources.

Produce Societies

A number of societies have been organized primarily for the marketing of farm products, although they may also retail requirements (farm supplies) to their members. The agricultural products marketed include eggs and poultry, livestock, meats, wool, fruits and vegetables, etc. The position of these societies is summarized in the following table.

TABLE VI
PRODUCE SOCIETIES

—	1943	1942	1936
Number of Societies.....	148	146	153
Number of Shareholding Members.....	46,733	45,687	46,690
Sales, requirements, etc.....	£ 693,205	£ 1,568,357	£ 210,329
Sales, produce.....	11,992,686	9,847,941	5,526,962
Surplus on Year.....	242,849	217,888	87,159
Share Capital.....	380,265	356,517	329,558
Loans from Members.....	45,832	24,086	*165,404
Net Balance of Profit and Reserve.....	450,210	383,951	150,306
Total Assets.....	1,301,914	1,171,636	893,242

* Includes loans from other sources.

Other societies organized for serving British agriculturists included those formed to buy farm supplies for holders of small allotments or farm holdings. Another group of societies has been organized for carrying on farming operations for their members. Co-operative societies have also been organized.

In addition a number of societies have been organized by fishermen for marketing fish and for buying supplies.

The following table summarizes the position of Requisites on Farm Supply Societies, Produce or Marketing Societies, Farming and Growing Societies, and Fishermens Societies for 1933, 1936, 1942 and 1943.

TABLE VII

	1943	1942	1936	1933
Number of Shareholding Members.	153,898	150,595	138,541	131,614
Sales Requirements.	£ 13,388,216	£ 14,154,848	£ 9,498,166	£ 6,796,930
Sales Produce.	17,797,022	13,065,526	6,961,997	6,383,734
Surplus on Year.	1,132,212	955,029	421,277	580,742
Share Capital.	1,797,286	1,741,592	1,494,447	1,515,041
Loans for Members.	255,423	213,750	958,252	931,368
Net Balance of Profit & Reserve.	2,122,927	1,886,177	1,035,577	664,236
Total Assets.	6,443,379	5,760,511	4,557,855	3,966,017

Other Co-operative Societies

In addition to the foregoing a considerable number of other co-operative societies of different types are incorporated under the Industrial and Provident Societies Act. These include agricultural development societies of various types, small holdings and allotment societies organized for the main object of obtaining land which is rented to their members, a few agricultural credit societies and societies organized to render miscellaneous services such as the operation of a threshing machine, a fruit and vegetable market etc., also a large number of social clubs are also registered under the Act. These are mainly for acquiring and operating premises for recreation and gatherings of a public nature.

In addition to the banking department of the Co-operative Wholesale Society to which reference has already been made, a number of bank and loan societies have been organized. An important development is that of housing societies organized to borrow or otherwise secure funds for the operation of housing services. There are also building and loan societies which assist their members to become owners of land and houses by lending them a part of the purchase money on mortgage.

Another *important* type of co-operative activity under the Industrial and Provident Societies Act is that of insurance. The principal society in this group is the Co-operative Insurance Society which, according to its officials, is the third largest insurance society in England. The total premium income of this society in 1943 was £11,985,761. Among the services rendered by this society is a so-called "collective" insurance scheme whereby a single policy is issued to retail societies insuring the lives of all purchasing members. The benefits are calculated on the basis of the recorded purchases of the members over a period of years preceding time of death. All other branches of insurance services are provided.

Other insurance societies registered under the Act deal chiefly with the administration of employee pension schemes, workmen's compensation, medical and surgical services, etc.

Summary.

It will be observed that Co-operative Societies organized under the Industrial and Provident Societies Act fall into four main groups:

1. Retail, Wholesale and Productive.
2. Agriculture and Fishing.
3. Other Agricultural Services.
4. General Services.

Considering the first two groups, the position in 1943, 1942, 1936 and 1933 may be summarized as follows:

TABLE VIII

Retail, Wholesale, Agricultural and Fishermen's Societies in England, Scotland and Wales

—	1943	1942
No. of Societies on Register at end of Year.....	1,269	1,256
Number of Members.....	9,159,565	9,067,722
Sales.....	£ 576,198,496	£ 547,532,130
Surplus on Year's Working.....	50,965,235	48,757,186
Share Capital.....	223,223,978	201,272,219
Deposits.....	117,904,939	95,899,800
Loans.....	53,813,881	45,739,091
Net Balance of Profit & Reserve.....	55,302,591	52,034,343
Total Assets.....	495,637,414	437,525,690
—	1936	1933
No. of Societies on Register at end of Year.....	1,270	1,382
Number of Members.....	7,965,961	6,925,949
Sales.....	£ 387,648,319	£ 303,801,853
Surplus on Year's Working.....	33,977,764	34,241,390
Share Capital.....	161,751,161	138,208,046
Deposits.....	75,442,501	54,969,178
Loans.....	35,070,409	25,796,475
Net Balance of Profit & Reserve.....	37,656,875	31,549,874
Total Assets.....	270,663,345	266,105,490

Some Features of Organization and Operation of Co-operative Societies of Different Types

SECTION V

The manner in which a Co-operative Society shall be administered is set forth in the rules which require to be approved by the Registrar, in accordance with the provisions of the Industrial and Provident Societies Act.

Some of the main provisions of the rules of a typical co-operative retail society are as follows:

Every individual who applies for membership in a retail consumers society must sign an application for one or more withdrawable shares and pay an entrance fee, usually one shilling, or an application may be made in his behalf by some other person, who pays the required entrance fee for which he secures a receipt

and a copy of the rules of the Society. In either case, the applicant, by the terms of the prescribed application form, agrees to abide by the rules of the Society and to make all payments required by the rules.

Every application for membership must be approved by the directors and the name of the applicant entered on a list of members for the number of shares required to be held by the rules or any larger number applied for. No member may vote (a) if he holds less than the number of shares required to be taken on admission, (b) if he is in arrear of his subscriptions for shares, (c) if the sum standing to his credit on any withdrawable shares is reduced by withdrawals below the full amount payable on the withdrawable shares he may be required to hold as a condition of membership.

The capital usually consists of shares with a value of £1 each, which are withdrawable and not transferable. Payments on all shares required to be held are usually at the rate of 3d. per week, with a fine of 1 shilling per quarter for non-payment. Payments of instalments may, of course, be made in advance, or shares may be paid for in full at any time. Interest on share capital and patronage dividends payable to a member are applied against unpaid balances on shares subscribed by or required to be held by him as a condition of membership in the Society. This method of building shares applied for out of patronage dividends and interest, is standard practice amongst retail co-operative societies.

As provided in the Industrial and Provident Societies Act, the rules must provide that the maximum amount of share capital which can be held by an individual in a retail society is 200. This restriction does not, however, apply to a co-operative society which is a member.

The rules provide that the directors of a society may in its behalf obtain advances of money from members or others upon security of bonds, agreements, or mortgage of property. Unless authorized by a special rule, the amount borrowed shall not exceed the nominal capital. Unless authorized by a meeting of the members, the rate of interest payable on loans shall not exceed 6 per cent.

A retail society may also receive money on deposit from members in an amount not exceeding a total of 20 pounds from any one depositor. Since a retail society usually has withdrawable share capital, no payment in the form of shares withdrawn shall be made as long as any claim for withdrawal of deposits remains unsatisfied.

Withdrawal of Shares

Shares, and sums credited thereon, may be withdrawn by the members upon such notice as is specified in the rules or bylaws. The notice required is usually one week for any sum up to £2, two weeks for any sum from £2 to £5, three weeks for any sum above £5 and up to £10, and an additional week's notice for each addition sum of £5 or fraction thereof.

Withdrawal of shares and sums credited thereon is, however, subject to the following qualifications

(1) Inasmuch as the rules or bylaws of a society designate the number of shares which each member must hold as a condition of membership, such shares can only be withdrawn with the consent of the directors. Any shares held by a member over and above the minimum designated as a condition of membership, can be withdrawn by the member on giving the usual notice.

(2) If a member withdraws a portion of the share capital he is required to hold as a condition of membership, the amount withdrawn becomes a debt payable to the society as long as he continues as a member. In practice this

means that interest and patronage dividends payable to a member are set off against the amount withdrawn until the minimum investment required as a condition of membership has again been accumulated.

(3) When a member withdraws from a retail co-operative society the rules provide that his entire investment shall be paid to him within six calendar months after receipt by the society of notice of withdrawal.

(4) Not more than 10 per cent of the capital paid up on January 1st each year, shall be withdrawable during that year, except with the consent of the directors, nor except with such consent shall any member be entitled to withdraw more than 10 per cent of capital standing to his credit while he remains a member.

(5) Notwithstanding the foregoing provisions, the directors may by resolution, suspend withdrawals of share capital, but such suspension shall in all cases be subject to confirmation by the next general meeting, and if not confirmed, the suspension shall cease. No member shall be allowed to withdraw capital during the period of suspension.

Shares in a retail society are not numbered, but the directors are required to keep a share register showing the amount of share capital existing from time to time, and containing a ledger account under the name of each member, showing the number of shares held by and all sums due, paid, or withdrawn by or credited to him on their account. In practice, share certificates are not issued, but members' share pass books are used containing entries respecting date of transaction, amount of contributions, dividends and interest, withdrawals, fines, if any, e.g., for failure to pay instalments on shares together with entries showing the total claim for share capital from time to time.

Where monies are loaned to a retail society by a member, a special loan pass book is issued containing the details of the loan agreement, the form of notice of withdrawal of proceeds of loan, or part thereof by the lender, together with entries respecting cash paid to the society, interest thereon cash, withdrawn by one member, and balance due by society.

Where deposits are accepted up to a maximum of £20 from each member, a passbook for such "small savings fund" is issued to each depositor showing amount deposited, interest added, amount withdrawn and present claim.

While the directors are given authority to suspend the withdrawal of shares and to delay withdrawals of deposits, in practice the financial position of British retail societies is such that claims for withdrawals are met on schedule. This is due not only to the position of the societies themselves, but also to the fact that they are federated through the C.W.S. and S.C.W.S. with their extensive financial resources. It therefore follows that while the directors are given authority to suspend share withdrawals in case of an emergency, in practice, share capital investment, loans and deposits can be withdrawn subject only to such notice as may be designated in the rules.

Distribution of Surplus

The rules of a retail society prescribe the manner in which the surplus or profit arising from the business shall be distributed. These provide for:

(a) Depreciation of plant and equipment.

(b) Reduction of preliminary expenses, if any, incurred in forming the society.

- (c) Interest on share capital, at such rate not exceeding 5 per cent per annum, as the business meetings may from time to time direct.
- (d) The application of such percentage of the net surplus as the directors may determine and as the meeting may approve for:
 - (1) the equalization of dividends
 - (2) to meet other contingencies affecting the business of the Society.
- (e) An educational fund equal to $2\frac{1}{2}$ per cent of the surplus, or such other amount as the business meeting may determine.
- (f) Payment of membership fees to the Co-operative Union, or by payment to a general fund for such purposes as the business meetings may direct.
- (g) The division of the remainder of the surplus, first amongst the members in proportion to the amount of their purchases; second, amongst non-members, in proportion to their purchases, at one-half of the rate to which they would be entitled to as members; third, amongst the employees of the Society in such amount as the rules may designate and as the business meeting may approve, provided, however, that no patronage dividend shall exceed the amount recommended by the directors.

With respect to agricultural co-operative societies, the rules usually designate the number of shares which must be held by a member as a condition of membership. Shares are usually not withdrawable by members except in case of distress, or removal from the district served by the co-operative. Shares in agricultural societies are, however, transferable, this being in contrast with the practice followed by retail societies which have withdrawable but not transferable shares.

The rules give authority to the directors of agricultural co-operative societies to obtain loans from members or non-members. Where loan capital is furnished by members, the rules may give the directors power to fix notice of withdrawal, and according to information furnished by officials, the notice period is six months in most cases.

Some societies also accept deposits in accordance with the provisions of the Industrial and Provident Societies Act, in which case a minimum notice of withdrawal may be stipulated or definite notices of withdrawal may be set for varying amounts.

One interesting feature of the practices followed by agricultural co-operative societies in Great Britain is that as a rule no patronage dividends or refunds are paid to non-member customers.

Subject to any direction from the general meeting, the surplus resulting from the operation of the society is to be divided as follows:

- (a) Interest on paid up capital at a rate not exceeding 6 per cent.
- (b) An increase in the reserve fund or for any other purpose which the meeting may direct.
- (c) Subject to (a) and (b) the remainder is to be divided amongst the members in proportion to the amount of their purchases during the period, and in the banking department is divisible amongst the depositors in such manner as the directors may decide, subject to any resolutions of the general meeting relating thereto. Any undivided balance goes to the reserve fund.

Provision is also made for the payment of a semi-annual interim dividend subject to the approval of the quarterly meeting of the delegates. An interim payment may also be made to depositors and the meeting may also authorize the payment of a special bonus on productions of the wholesale purchased by the members.

The C.W.S. has a lien on the shares and deposits of any member society indebted to it and may apply any sum credited to such member to the payment of his debt. Share certificates are not used, but a share pass book is issued showing particulars of shares taken up. Patronage dividends and interest on share capital are credited to share account of the member society until all shares required to be held or subscribed by it are paid up.

After the shares subscribed are paid up any dividends due to a member society are placed to loan capital account, if not withdrawn by the society. The manner in which loan capital can be withdrawn is a matter for agreement between the society and the wholesale. Special loan account pass books are issued respecting dividends placed to loan capital account. Other pass books are used where societies wish to place monies with the banking department. A society may open a deposit account either at call or withdrawable after notice.

Co-operative officials were not in favor of financing exclusively by loans from members lest the members should come to feel that they were not owners, but merely creditors. Organization without share capital is not possible under the Industrial and Provident Societies Act.

The financial and other operating methods of the Scottish Co-operative Wholesale Society are in the main similar to that of the C.W.S. except that the former does not operate a banking department.

Expansion of Co-operative Trade

SECTION VII

Studies made by officials of the Co-operative Union indicate that while the total volume of trade by the retail co-operative societies is increasing, the average purchases per member show a decrease considering the trend over a considerable period. It is also indicated in these studies that while the co-operative movement has participated in what is termed a general trend in retail distribution in recent years with respect to transfers from individual to collective control, the growth of the chain store and the department store has been more spectacular.

A number of private stores or shops have been purchased by retail co-operative societies and there have also been purchases of established businesses by farm supply or marketing co-operatives, although the number of co-operative societies has shown a decrease due to amalgamations. The following information regarding the numbers of licenses held by or granted to retail food businesses of different types was given in Parliament on February 28th, 1945.

TABLE IX

MULTIPLES, CO-OPERATIVE SOCIETIES AND INDEPENDENT TRADERS.

Changes in the numbers of Licenses held by Retail Food Business in the United Kingdom —
17th April, 1944 to 15th January, 1945.

Licenses granted			
Type of organization	On purchase or other transfer of ownership of business as a going concern	On opening of new business or re-opening of closed business	Total
Multiples.....	241	64	305
Co-operative Societies.....	157	55	212
Independent traders.....	12,665	5,479	18,144
Total.....	13,063	5,598	18,661
Licenses cancelled			
Type of organization	On sale or other transfer of ownership of business as going concern	On closure of business	Total
Multiples.....	131	202	333
Co-operative Societies.....	25	35	60
Independent traders.....	12,907	4,494	17,401
Total.....	13,063	4,731	17,794
	Net Change	Estimated number of licenses valid January, 1945	
Multiples.....	- 28	22,604	
Co-operative Societies.....	+ 152	16,193	
Independent traders.....	+ 743	558,980	
Total.....	+ 867	597,777	

In 1932 it was estimated by officials of the Co-operative Union that the proportion of national trade done by retail co-operative societies in various lines was as follows: food stuffs and other groceries 14.1%; piece goods and clothing, 6.67%; boots and shoes 9.1%; furniture and hardware 3.5%; coal 13.8%.

The following estimate regarding the proportion of the retail trade being done by retail co-operative societies was furnished by the Co-operative Union. In this connection it was pointed out that while the co-operative figures are adequate, the national figures are estimates.

"The most up-to-date comparison of co-operative and national departmental trade gives the following percentage of co-operative trade to national trade :

Grocery, Provisions, Bread and Confectionery . . .	15%–18%
Meat	12%
Dairy	33%
Apparel, Household Textiles, Furnishing & Hardware	7%
Footwear	10%
Pharmacy	6%
Coal	20%

During the war, of course, registration figures in rationed commodities have provided an excellent basic comparison and as a result of the compilation of such figures we know that the Co-operative Movement is catering for the needs of just over 25% of the population in such commodities as sugar, butter, bacon, preserves, cheese, etc. Tea is about 20% and bread may be about 20%, taking bread as a separate item from the first item in the list stated above. In "points" food trade, as a result of various compilations, we estimate that the Co-operative Movement is catering for the trade of about 16% to 18% of the civil population".

Patronage dividends paid by retail societies vary from one to three shillings in the pound, with many societies paying from a shilling and sixpence to two shillings and sixpence. The dividend paid by the C.W.S. has been four or five pence in the pound in recent years, plus a special dividend on C.W.S. productions.

During interviews with officials of Co-operatives and private business organizations some opinions were expressed regarding the advantages resulting from co-operative effort in Great Britain. These included —

- (a) The economic advantages to people with low incomes through the distribution of the patronage "divi".
- (b) The promotion of thrift amongst people with low incomes, e.g., through leaving surplus funds on loan or deposit with co-operatives.
- (c) That the public interest is being served by the development of a self-help movement.

On the other hand it was contended that co-operatives had the following limitations and disadvantages.

- (1) Loss of some direct revenue to the Treasury from the purchase of privately owned businesses.
- (2) The tendency on the part of co-operative societies to render a general service compared with the specialized service of the multiple store or shop.
- (3) The difficulty of maintaining membership interest in the business as compared with say the family owned shop.
- (4) The failure of Agricultural Societies to pay patronage dividends to non-member patrons.

Some Differences between British and Canadian Co-operative Development.

In Great Britain, co-operation is predominantly a consumers movement, served by firmly established co-operative wholesaling, production and banking services. The movement is very well financed and has very large reserves.

The fact that such a large proportion of the business done relates to household necessities makes for greater stability than where the business done consists largely of farm supplies or the marketing of farm products or fish.

In Canada, the co-operative movement is organized chiefly to serve agriculturists and fishermen. The fluctuations in income on the part of this class of the population makes for greater variation in patronage and a corresponding difficulty in securing and maintaining the necessary capital. Consumers' co-operation on the British model is virtually non-existent in Canada.

In Great Britain there is a tendency to consolidate as many services as possible through the same co-operative unit. In Canada, there is a greater tendency for co-operatives to specialize in the marketing of one class of farm products, e.g., grain or live stock, or alternatively in the handling of farm supplies.

In Great Britain, nearly all co-operatives are members of federations for the pooling of purchasing and productive activities. In Canada, the large centralized co-operative specializing in one or a limited number of services has become important. While there has been some development of federations for marketing farm products and the handling of farm supplies, the relative importance of this type of activity does not compare with developments in Great Britain.

The use of share capital with a fixed minimum amount which must be held by each member is the prevailing form of co-operative financing in Great Britain. This is supplemented by extensive use of loan capital and deposits. In Canada, there has been some effort to relate capital investment to patronage through the use of deferred dividends and share investments based on probable business. While Agricultural Co-operatives in Great Britain have made some effort to relate share investment to patronage, the use of patronage dividends as working capital by deferring payment thereof over a period of years is unknown. It was suggested by British Co-operative officials that the use of deferred dividends as working capital was the outcome of conditions peculiar to Canadian Agriculture.

In Great Britain, retail and wholesale societies act in effect as bankers for their members. In Canada, the tendency has been to organize Credit Unions as a means for providing credit facilities on a co-operative basis, especially in rural areas.

PART II.—TAXATION OF CO-OPERATIVE SOCIETIES IN BRITAIN

SECTION I

CO-OPERATIVE SOCIETIES AND INCOME TAX

1846 — 1933

The history of the Income Tax in relation to co-operative societies in Great Britain until 1933 is that of a series of attempts to reconcile the opposing views of co-operatives and their non-cooperative competitors. The early co-operative societies were registered under the Friendly Societies Act (1846) which granted them exemption from Schedule C of the Income Tax i.e., from the tax on income accruing from the ownership of government securities. They were, however, subject to tax on their profits although the income of most of the members was below the exemption limit. The societies paid this tax only under protest.

The Industrial and Provident Societies Act (1852) related specially to co-operative societies and conferred on them the tax status of Friendly Societies. In 1853, the exemption of the Friendly Societies was extended to include Schedule D relating to income from trading activities. This exemption was extended also, apparently after some dispute, to co-operative societies registered under the Industrial and Provident Societies Act; in 1862, this Act was amended to confirm the exemption of societies registered thereunder from income tax under Schedules C. & D. but it was not clear from the wording of the amendment whether or not individual members were subject to tax on income received from the societies. An attempt was made in 1867 to require the societies to report payments to members and collect from them on these payments. Since most members were exempt, this procedure involved the authorities in a great deal of unprofitable work and yielded little revenue. Accordingly, in 1876, the societies were relieved of the task of reporting payments made to members.

In 1879, in response to a protest from private traders that co-operative societies were evading their fair share of taxation and that many non-cooperative organizations were escaping tax by masquerading as co-operatives, a Parliamentary Committee was set up to consider the matter. In the following year the Customs and Inland Revenue Act was amended to make the exemption conditional on the way the society operated. It provided that a society registered under the Industrial and Provident Societies Act should be charged to Income Tax under Schedules C. & D. in case the society sold to persons who were not members *and* limited the number of its shares either by its rules, or by its practice. It stipulated also that the customer dividend was not taxable in the hands of the recipients, but that interest on share and loan capital was to be included in the taxable income of the individual members.

The Departmental Committee on Income Tax, which reported in 1905, was instructed, in an extension of its terms of reference, to report whether co-operative societies enjoyed an undue exemption from Income Tax. After hearing evidence from revenue officials, from representatives of traders' organizations and from co-operative societies, it reported that the collection of tax from co-operative societies at the source would involve a vast amount of labour and expense with little increase in revenue. Moreover, they expressed the view that "the dealings of a co-operative society with its own members do not result in anything that can be treated as 'profit' within the meaning of the present Income Tax Acts, or which could in fairness be so treated under any amendments of the law".

When the Excess Profits Duty was imposed in 1915, the surplus of Industrial and Provident Societies was expressly included within the meaning of the term "profits" for the purpose of that tax. In fact, however, co-operative societies, for the most part, escaped paying this tax because of the difficulty of arriving at their profits in the base period. Similarly in 1920 co-operative societies were made subject to the short-lived Corporation Profits Tax although in the next year profits arising from trading with members were exempted.

In 1919, a Royal Commission, appointed to survey the whole field of Income Tax, was deluged with representations regarding the taxation of co-operative societies. Apparently this was the most contentious question that the Commission considered. In a majority report it concluded "that any part of the net proceeds not returned to members as 'dividend' or 'discount' is a profit which should be charged to Income Tax". Accordingly, the majority report recommended in effect "that a Society should be treated exactly as a limited liability company trading in the same conditions". In another section, the report deals specifically with agricultural co-operatives. Whatever treatment is accorded other co-operative societies—agricultural societies, the report recommends, "should not continue to have special treatment under the Income Tax Law".

However, the view was accepted that the transaction of a society with a member is "not really complete until the society has decided what discount it can allow on the aggregate purchases of the member, and has paid him that discount in the form of a dividend on purchases". The majority report recommended, therefore, that the dividend be treated as a trade expense.

The Commissioners were by no means in agreement on the question. Of the twenty-two members who signed the report, eleven made reservations on the question of taxing co-operative societies. Two of the dissenting Commissioners agreed with the proposal contained in the majority report, but on different grounds. Two others took the position that if, after the repeal of the clause specially exempting co-operatives, their receipts were found not to be taxable, some other special form of taxation should be adopted so as to make them contribute their fair share to the revenue. Seven of the Commissioners considered that none of the receipts of co-operative societies was properly assessable to Income Tax.

In spite of representations of non-cooperative traders to successive Chancellors, the majority report was not implemented. However, in 1932 a Parliamentary Committee (The Raeburn Committee) was appointed to inquire into the position of co-operative societies in relation to Income Tax. Again a substantial volume of evidence was submitted and the Committee presented a brief report in 1933. In effect it repeated the recommendations of the 1920 Commission that the statutory exemption granted to co-operative societies be withdrawn; that the societies be charged to Income Tax on all trading whether with members, or with non-members; but that the patronage dividend be treated as a trade expense. However, it also recommended that the societies be relieved of the duty imposed on ordinary companies, of collecting the tax on share and loan interest at the source.

After some hesitation, the recommendations of the Committee were accepted by the Government and introduced by Sections 31 and 32 of the Finance Act, 1933. In his Budget speech the Chancellor of the Exchequer spoke of the "vexed question of the liability of co-operative societies to Income Tax... a matter which in the past has created bitter feeling on both sides". The recommendations of the Raeburn Committee, he reported, were not acceptable to the representatives of the co-operative societies. He hoped that discussions still proceeding with the representatives of the society would result in an agreement before the introduction of the Finance Bill. Later, however, having failed to obtain an agreed settlement, he introduced a resolution authorizing legislation to give effect to the Raeburn recommendations. He had suggested to the representatives a compromise proposal "the effect of which would have been to tax all income of the co-operative societies from investments, whether inside, or outside the movement, and all profits from trading with non-members; but it would have left still exempt from Income Tax the profits derived from trading with members". To this proposal was attached the condition that "the societies would not seek to deduct tax from interest on share capital and would not attempt to transform share capital into loan capital", (Hansard, 22 May 1933, Col. 769 et seq.). After a debate the Resolution was carried on a division. There were subsequent debates and divisions at the report stage of the Resolution, the Committee stage of the Finance Bill and the report stage of the Finance Bill.

Representatives of the co-operative societies were severely critical of the Act, the personnel of the Raeburn Committee, the logic of its report and the position taken by the Prime Minister. The private traders, on the other hand, felt that they had made only a short step toward securing equality of

treatment. However, the legislation has not been amended since it was passed; from an administrative point of view it has worked very well; and neither side apparently expects that substantial changes will be made in the immediate future.

SECTION II

PRESENT TAX POSITION

Co-operative societies in Britain are still taxed in accordance with the provisions of the 1933 Act.

Section 31 of the Act provides that the profits or gains of any corporation or society shall be deemed to include "profit or surplus arising from the transactions of the company with its members which would be included in profits or gains" for the purpose of computing the tax "if those transactions were transactions with non-members and the profit or surplus aforesaid shall be determined on the same principles as those on which profits, or gains arising from the transactions with non-members, would be so determined". However, in computing the taxable gains of any company "there are to be deducted as expenses any sums which

- (a) represent a discount, rebate, dividend or bonus granted by the company to members or other persons" in respect of amounts paid or payable by or to them on account of their transactions with the company or society... and
- (b) are calculated by reference to the said amounts or to the magnitude of the said transaction and not by reference to the amount of any share or interest in the capital of the company or society".

In addition, Section 32 of the same Act requires a registered co-operative society to pay share interest and loan interest to members in full, without deduction of Income Tax at the source, and the society is permitted to deduct from its Income Tax, the tax normally payable on such share and loan interest. There is one exception to this rule. The society is permitted to deduct income tax from share or loan interest paid to a non-resident. The society is required to report each year to the Income Tax officials the name and address of each person who receives from the society loan interest to an amount of £5 or more and the amount paid to such person.

Since no individual member of co-operative society may hold more than £200 share capital therein, and the maximum rate on share capital is 5%, it follows that the maximum payment of share capital interest to one individual is only £10. For this reason, societies are not required to report payments of share capital interest to their individual members. Interest both on loan and share capital, however, is taxable as part of the ordinary income of the recipient. The Income Tax collected currently from societies and corporations is ten shillings in the pound.

Although neither a co-operative society nor an ordinary company pays income tax on its customer dividends or bonus, the recipient is taxed on any customer dividend or bonus if it enters into his trading account. That is, if the amount involved becomes a part of the trading profits of the customer or member. The "dividend" from a consumers' retail society, for example, is not taxable in the hands of a recipient since it is regarded as a reduction in the price of consumers' goods; but the dividend received by a member from an agricultural society, or received by a society from a co-operative wholesale society does enter into the taxable income of the recipient, since it is regarded either as a reduction of his expense, or an increase in his revenue.

To summarize:

(a). Where, as in the case of an agricultural wholesale co-operative, the bonus, or purchase "divi" enters into the trading accounts of its members, the whole income whether accruing to the members, or left in the hands of the society is taxed once:

(1) The bonus or divi is treated as an increase in the gross income, or a decrease in the business expense of the recipient and is, therefore, taxed as his income;

(2) Share or loan interest is taxed in the hands of the recipient;

(3) The remainder which the society keeps is taxed as income of the society.

(b). However, where the purchase "divi" does not enter into a trading account as is the case in a retail consumers' society:

(1). The "divi" is regarded as a reduction of personal expense and is not taxed at all;

(2). Share and loan interest are taxable in the hands of the recipient and,

(3). The remainder of the surplus of the society, which is put to reserve, is taxed as income of the society.

In administering the tax, the Board of Inland Revenue allows the society to deduct, as an expense, purchase dividends actually paid in cash, or credited to members on withdrawable or transferable share capital, or loan account. However, any portion of a purchase "divi" declared, but withheld by the association from its members, is not at present held to be deductible. This practice is uncommon and no case has occurred where such withheld amounts were subsequently paid out to the customers.

With few exceptions, the individual members of the associations may withdraw their share or loan capital on demand, or after short notice. As stated elsewhere in this Report, the Industrial and Provident Societies' Act authorizes certain safeguard provisions which restrict the withdrawal of share capital in any one year to ten per cent of the amount outstanding, except with the consent of the committee. In case of an emergency too, the committee has power temporarily to suspend withdrawals of share capital. Again, the members of the wholesale societies are required to subscribe for a certain minimum of transferable shares and the "divis" of the wholesale are applied in payment for these shares until the minimum amount is paid up. Subject to these exceptions, the British practice is equivalent to allowing the societies to deduct purchase "divis" actually paid to a member or credited to him in such a way that he can exact payment, if he wishes, on demand or after short notice.

Wage bonuses to employees are also held to be expenses and are deductible from surplus in computing taxable income. Insurance premiums paid by societies to co-operative or mutual insurance companies are, in general, deductible as an expense, but any rebate on premiums paid is regarded as part of the gross income of the society. Grants made by a society are deductible if made to an institution which in return gives services to the members of the society concerned. Expenditures for co-operative education and other similar expenditures are considered to be analogous to ordinary advertising expenses and are deductible unless they appear to be unreasonably large.

From an administrative viewpoint, the 1933 legislation seems to have been very satisfactory. Officials of the Inland Revenue Department report that no special administrative difficulties have been encountered. Taxpayers too,

both co-operative and non-cooperative appear to have been generally well satisfied with the administration of the Act. Only two minor complaints were advanced with respect to the administration of the tax. Some of the competitors of the societies doubted whether farmers actually reported "bonuses" received from the association and the representative of one group of traders thought the societies might have been allowed too generous deductions for expenses involved in celebrating the centenary of the cooperative movement.

A number of factors make for ease of administration. The societies are all registered under and regulated under a single co-operative Act. The bonus or dividend is deductible as an expense whether it is paid by a co-operative society, or by an ordinary corporation. Accordingly, the tax officials are not required, for this purpose, to decide whether, or not, any particular business is organized and operated on a co-operative basis. Moreover, the liability to tax is independent of the extent of non-member business, or the occupation of the members, or the type of business conducted by the society. A rather fine line is drawn between clubs and charitable organizations which do not carry on trading activities and which are exempt from income tax, on the one hand, and on the other trading societies which are subject to tax; but the members of the Commission heard no complaints concerning the administrative practice followed in differentiating between these two groups.

The chief difference in the application of Income Tax to ordinary corporations and trading co-operative societies lies in the fact that the former are, while the latter are not, required to pay and deduct the normal tax on dividends on capital stock and loan interest. Administratively, however, this distinction does not create difficulty because organizations registered under the Industrial and Provident Societies Act are not, while ordinary corporations registered under The Companies' Act are, required to collect the tax at the source.

The National Defence Contribution imposed by the Finance Act of 1939 is a levy of five per cent on the profits of corporate trading, and four per cent on the profits of unincorporated establishments. The methods of computing trading profits for the purpose of this tax are based on income tax procedure with certain adaptations. Co-operative societies are not specifically mentioned in the Act. Accordingly the dividend or bonus is treated as a trading expense. Similarly, the Finance Act of 1939, which imposed the Excess Profits Tax, provides that profits are to be computed on the same principles as for Income Tax purposes with certain adaptations. "Dividends" and bonuses are treated as deductible expenses both in computing the standard profit and the profit for the current period. The N.D.C. and the E.P.T. are alternative taxes. The taxpayer is required to pay whichever of these taxes is cumulatively the larger over the period during which they run concurrently. E.P.T. or N.D.C. paid in any accounting period with respect to the income of that period are allowed as deductible expenses in computing profits for the purpose of Income Tax.

Mutual and co-operative insurance companies in Britain, are taxed in much the same way as co-operative associations. There is only one important Co-operative Insurance Company in Britain, the Co-operative Insurance Society registered under the Industrial and Provident Societies Act and owned by the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society. It is the third largest insurance company in Britain and engages in all types of insurance except marine insurance.

It is taxed separately on its various types of business and conducts them in different ways. For our purposes it is necessary only to consider the fire and general insurance branches of the business. It accepts risks from the C.W.S., the S.C.W.S., co-operative society members of these bodies other co-operative

societies and from individuals who may or may not be members of a co-operative society. The S.C.W.S. and the C.W.S. and their member societies are considered members of the C.I.S. Of its fire business one-half is done with member societies, one-third with individuals and one-sixth with non-member societies. After payment of share interest the committee, i.e., the directors, may propose to distribute from the remaining surplus a bonus in proportion to premiums paid or in such other way as they see fit. The annual meeting may either confirm the proposal of the committee or reduce the proposed distribution. In practice the Co-operative Insurance Society gives societies a special discount of 10% on the premium covering their own risks; allows an agency commission of 15% and in 1944 gave a bonus of $12\frac{1}{2}\%$ of the net premium to member societies and $6\frac{1}{4}\%$ to non-member societies. No bonus is paid to individual policyholders, but the latter benefit from gradually reduced rates as reserves are built up. In the fire and general insurance branch the company is taxed at the ordinary rate of 10 shillings in the pound with respect to its interest income of the year and on the underwriting profits of the preceding year, after deducting claims and the reserve for unexpired risks up to 40% of the premium income. Bonuses are deductible as an expense in computing taxable income. The Co-operative Insurance Society is also subject to E.P.T. or N.D.C. It is expected that the company will pay only N.D.C.

There are a few mutual companies in Britain which insure fire risks. The tax experience of one of these which does a substantial mutual fire insurance business is summarized in what follows.

Until 1933 the society was not assessed except on its investments. Since that time it has paid income taxes in the same way as an ordinary company. On its fire business it pays tax on its investment income, its underwriting profit and profits from the sale of investments. Bonuses and discounts paid to members are allowed as an expense.

It is not practicable for this society to return rebates annually since the individual amount returnable would be very small. Accordingly, the society follows the practice of setting up a bonus reserve account. When this is large enough the company distributes a bonus of reasonable size. Meanwhile increases in this reserve are not deductible for tax purposes.

A recent decision (*Ayrshire Employers Mutual Association Ltd. v Commissioners of Inland Revenue*) makes it appear that rebates apportioned to policyholders but withheld from them for a period may be deductible when apportioned. However, it is not practicable for a society like the one dealt with in the preceding paragraph to adopt this practice.

There are no mutual fire organizations in Britain comparable with the reciprocal exchanges or the deposit mutuals in Canada.

SECTION III

FINANCIAL RESPONSE TO TAXATION

In 1933, when the Income Tax was first imposed on the societies, the National Co-operative Authority, after consideration and investigation, made certain recommendations designed to combat what the co-operators considered to be unfair taxation. It advised its member societies that their efforts to discourage non-member business should be replaced by an expansionist policy. With respect to reserves and depreciation, it was unable to make general recommendations applicable to all societies. It advised societies to depreciate their lands and buildings at a reasonable rate and to avoid any action that might

impair their financial standing. Subject to these limitations, however, it advocated minimizing the tax paid by adjusting allocations to reserves and rates of depreciation. Any saving in depreciation was to be passed on to the members in the form of a reduction of prices of goods manufactured by co-operative societies. In the years immediately following the imposition of the tax, the sums allocated to reserves and depreciation diminished, partly it may be assumed, as a matter of policy, partly because of depressed trade conditions.

However, after two years' experience, the National Co-operative Authority revised its attitude. It re-affirmed the desirability of pursuing an expansionist programme, but it urged societies which had reduced their reserve allocations and depreciation rates to revert to their former policy of making ample provision both for depreciation and reserves in spite of the tax. From this experience, it seems reasonable to conclude that, under English conditions at any rate, while co-operatives may, in part and for a short time, avoid a tax on the amount put to reserves, it is impracticable in the long run, for them to do so. This conclusion is all the more striking since it applies to a situation in which societies have little difficulty in raising additional capital by way of loans from members.

There are no indications that the National Defence Contribution introduced in 1939, occasioned any considerable revision of financial policy. But there are strong grounds for supposing that many societies have adjusted their bonus and reserve policy so as to escape payment of Excess Profits Tax and pay only National Defence Contribution. This behaviour has been more prevalent, as might be expected, since the rate of E.P.T. was raised to 100 per cent. However, some societies have paid E.P.T. even at the 100 per cent rate. Speaking generally, the consumer (or industrial) societies, including the Wholesale and Insurance Societies, tend to arrange their affairs so as to avoid paying E.P.T., but the practice of the agricultural societies varies. Those that have a generous standard profit distribute their surplus so as to avoid Excess Profits Tax, but some of the societies with low standard profits have paid it rather than distribute their recent large profits as a bonus. The latter societies are unwilling to pay abnormally high rates of bonus lest the members might expect these rates to be continued after the war. In addition, by paying Excess Profits Tax, they are building up a pool which may be refunded to them if their current profits fall below their normal profits. In addition, under certain conditions, they may after the war obtain a refund of part of the taxes paid.

SECTION IV

EFFECTS OF 1933 LEGISLATION ON CO-OPERATIVE DEVELOPMENT

The burden of the 1933 tax on the societies has not been insupportable. Opinions vary as to the importance of its effect on general co-operative growth, but there is agreement on some points. The tax has had the least effect on old and well-established societies which had already developed to a sufficient size to serve nearly all the individuals in their areas who were likely to become co-operative members or customers; it has had most effect on young and growing societies which have had to increase their reserves in order to preserve their financial stability. It appears that the tax has not prevented the movement from growing though it probably has tended to diminish the rate of its growth.

The tax probably has had more effect on the financial structure of co-operative societies than on the rate of their development. It has probably induced them to finance to a greater extent by means of share and loan capital and to a

less extent by retaining reserves than would have been the case had they remained exempt from taxation. It has apparently been fairly easy for the industrial co-operatives to secure adequate subscriptions of share and loan capital from their members. In England most of the Agricultural societies, too, have been able to raise sufficient capital. Some of them, indeed, have taken steps to restrict the amount of the share and loan subscribed by any individual member. On the other hand, in Scotland and Wales, agricultural co-operative societies apparently find it less easy to secure capital by means of loans and share issues, and their members, either because their incomes are low, or because in the past, they have been assessed on a notional income, have been anxious to receive the surplus in bonuses rather than leave it to be taxed when put to reserve. Accordingly, at least before 1939, many Welsh and Scottish Agricultural Co-operatives, as contrasted with similar English Societies were probably under-capitalized. Unwillingness to pay income tax on allotments to reserve was probably one, but only one, of the reasons for this situation.

There is little information available concerning the effect of the 1933 legislation on the formation, or development of new societies. Few new independent societies have been formed but it is generally believed that few would have been formed in any event. The trend during recent decades, rather, has been toward the amalgamation of smaller societies and the division of the field available for expansion between the larger societies thus formed to prevent duplication of facilities. This trend is the result of a deliberate policy, sponsored and implemented to some extent by the co-operative wholesale societies rather than of taxation.

It is worthy of note that a few societies and their members are actually paying less taxes than they would be compelled to pay if they were now exempt from the tax on trading profits and taxable on investment income as they would have been before the 1933 revision. Prior to 1933, these societies were assessed to tax under schedule A, on their income from real property. Now, in effect, they are subject to tax on any amount they put to reserves. Accordingly, if they now put less to reserves than they receive from real property they pay a smaller amount than they would if taxed on the income from their real property. Only a few of the older societies, however, are in this position.

SECTION V

ATTITUDES TOWARDS THE TAX

As was noted above, the application of income tax to co-operative societies was strenuously opposed by representatives of the co-operative societies. As might be expected co-operators and their competitors still hold opposing views regarding the tax. However, feelings apparently are less violent than at almost any other period in the history of this long controversy. The various attitudes may best be summarized by treating the view of the consumer organizations and their direct competitors first, and then the views of the agricultural societies and their direct competitors.

The official view of the consumer co-operative organizations is still to the effect that the Finance Act of 1933 was forced on the Government by political pressure from private traders, and imposed an unjust levy on the proceeds of mutual trading. According to this view, the co-operative society is to be regarded, for tax purposes, as a group of members who trade with one another rather than a legal entity which carries on business with the individual members. However, it seems probable that many of the rank and file look on the

co-operative store as a trading entity and take it for granted that it should bear taxes on the income it retains but should not be taxed on what is given back as a price rebate or "divi".

There is more variation in the views of non-cooperative retailers. Apparently no organization now holds the extreme view that a special form of tax be devised and levied on co-operative establishments only. The representatives of one organization, however, took the position that non-member business and contract business with public authorities should be prohibited. The representatives of another organization argued that since the "divi" included profits from non-member and contract business, and from investments, it ought to be taxed.

Some business competitors of co-operatives consider that the continued expansion of the movement is in part attributable to the fact that consumer dividends are not taxed. This circumstance, they contend, permits the societies to pay larger bonuses and attract more customers. The officers of other organizations, however, believe that a tax on dividends would lead to a price war which would ruin many small private traders. Generally speaking, the direct competitors feel that the 1933 legislation was a step in advance, particularly as it has resulted in co-operatives being subjected to N.D.C. and E.P.T. They believe, however, that tax exemption assisted co-operation in getting established in the first place and that the burden on private traders still is heavier than that on co-operatives. They contend, moreover, that at present most members of co-operative societies are in receipt of incomes larger than the tax exempt minimum and argue accordingly that the co-operative societies ought to be compelled to collect at the source the tax on share and loan interest.

One source of friction, not directly related to taxation, concerns the granting of bonus on price-maintained articles. Co-operatives handle these articles (except tobacco products) under an agreement not to give a "divi" on them when computing the bonus due members. Private traders believe that some societies do not live up to this agreement. Some of the private trade organizations realize, however, that if the dividend were regarded as a distribution of profit, rather than a price rebate, it would be unreasonable to prohibit co-operatives from giving "dividends" on price-maintained articles and give this as one of their reasons for not urging that the dividend be taxed.

The conflicts of opinion between the agricultural co-operative societies and their direct competitors are somewhat different. Since the bonus or dividend of the agricultural society enters into the trading account of the member, it is subject to tax in his hands. Accordingly, it cannot be argued that any element of the income of agricultural societies escapes tax even though the bonus be regarded as a distribution of profit. Formerly, of course, a farmer might choose to be assessed on a "notional" income based on the annual value of the property occupied. If he chose to be so taxed, the receipt of a bonus from a co-operative society would not increase his tax and it would be clearly to his advantage that it should not be taxed in the hands of the society. At present, however, all farmers except those with a notional income of £100 or less are assessed on their actual incomes and the bonus accordingly is taxed in their hands. Even so, the officials of agricultural societies are opposed to attempts to have them collect the tax at the source. They consider it is psychologically more advantageous to pay the bonus in full to the member and let him pay the tax on it than it would be to pay the smaller bonus free of tax.

The direct competitors of the Agricultural Co-operative Societies, on the other hand, would like to compel the societies to collect, at the source, the tax on both bonus and interest. They believe that the member often fails to

report the bonus in his income tax return and as evidence in support of this suspicion they point out the reluctance of the agricultural societies to collect tax at the source. In addition, the competitors of the agricultural societies recognize that many of the latter escape payment of E.P.T. by giving large customer bonuses to their members. They are of the opinion that if they tried to give bonuses of the same kind, after computing their profits for the period, they would be accused of making expenditures for the sole purpose of evading the tax and would not be allowed to deduct the bonuses as an expense. They are unwilling, moreover, to lower the prices initially charged for their products lest they incur losses. Accordingly, in general, they endeavour to charge prices which will maximize their profits, and solace themselves in the reflection that by so doing they are building up a tax pool which will serve as a buffer in adverse years, and that they may eventually be entitled to certain tax refunds, while the co-operative societies are paying out nearly all their abnormal profits in bonuses to members.

One other source of friction is not directly related to tax problems, but has a bearing, nevertheless, on the question of whether the bonus should be regarded as a price rebate, or as a distribution of profit. At present, the prices of many articles are fixed by government department. Co-operative societies are permitted to pay a bonus to members on articles whose prices are fixed by the Government provided the bonus is paid not specifically on these articles, but generally on the basis of the members' purchases (or sales) of all articles. The non-cooperative organizations are generally unwilling to pay a bonus to all customers on all purchases (or sales). Accordingly, they feel that they are bound by the price regulations while the co-operatives are not.

There is much confusion of thought on this issue on both sides. If the bonus is a distribution of profit, it is not a price reduction and of course if it is a price reduction, it is not a distribution of profit.

Similarly, dealers in farm implements maintain a fixed retail mark-up. They regard the co-operative bonus as a price reduction and only a very few co-operative societies are permitted to handle machinery on full or even partial trade terms.

However, speaking generally, in the field covered by the agricultural co-operative societies, the tax controversy is not a bitter one. While the non-cooperative dealers would like to see societies compelled to collect taxes at the source, and the co-operatives would like to see the bonus free of tax entirely, neither side regards the problem as a critical matter. Both sides would like to see the E.P.T. amended so as to allow them to make more adequate provision for reserves.

SECTION VI

CONCLUSIONS

The provisions of the 1933 Finance Act may be regarded as a more or less satisfactory though not wholly logical compromise. Neither side is completely satisfied with the arrangement, but controversy on the subject during recent years has been less bitter, apparently, than under any preceding arrangement. Neither side was prepared, at least during the war, to press vigorously for revision. Both are inclined to the opinion that the question of revision is primarily a political rather than a logical matter. Although several questions have been asked recently in the House, the Chancellor's reply that

no change is being considered since co-operatives and non-cooperatives are now treated alike, has given little encouragement to non-cooperative interests. Neither the co-operative nor their competitors now make the claim that they are being ruined through tax discrimination.

It does not follow, however, that the British solution would prove equally satisfactory in Canada if adopted without modification. The Canadian situation differs from that in Great Britain in a number of important respects. On the one hand the co-operative movement in Canada has not yet reached the degree of maturity which the British movement had attained in 1933. Canadian co-operation, moreover, is primarily agricultural and, in its financing, cannot rely to the same extent as can the British consumer movement on loans from its members. It is subject to more violent fluctuations in volume of trade and prices, and, accordingly, if it is to be stable, it must finance more largely on share capital or on reserves which cannot be withdrawn freely at the will of the individual member. In Britain, moreover, there is little room for the development of new societies that might have difficulty in establishing themselves if taxed on the amounts put to reserve, whereas in Canada new societies are very common. These considerations suggest that the British system of taxation would probably prove to be a heavier burden for Canadian than it is for British co-operatives.

On the other hand, the British Income Tax is applied to income only once whether the income originates from corporate or non-corporate activity; in Canada, on the other hand, the whole profits of corporations are subject to tax in the hands of the recipients. This consideration suggests that the British system, if adopted in Canada, of allowing bonuses and "divi" to be deducted as an expense might, to the extent that the dividends or bonuses include distributions of corporate income, favour the members of co-operative societies, as compared with the shareholders of ordinary companies.

There are other important differences. In England co-operative societies do not purport to act merely as the agent of the members, nor do they typically accept goods from members on consignment. In Canada they often do.

Again, in Britain, societies are financed in great measure by share or loan capital. Much of this capital is accumulated by crediting purchase bonuses to the share or loan account of the individual member. Payment for shares or loans is typically exigible by the individual member on demand or short notice. Accordingly, any patronage payment credited to the share or loan capital account of the member, or prospective member, may be treated as equivalent to a cash payment and is not taxed as income of the society. As old members withdraw and new members enter the capital of the society may be "revolved" by means of patronage allotments by the society without payment of income tax.

In Canada, on the other hand, share capital is not similarly exigible on demand, but only at the discretion of the directors. In addition, many societies withhold patronage allotments for an indefinite period of years and retire these allotments from the proceeds of similar allotments withheld from other members in later years. Accordingly, in Canada, the capital of the associations is made to revolve by means of funds not made immediately available to the members. If the British method were to be adopted in Canada, without adaptation, the associations would be made to pay income tax on their capital as it revolves.

PART III

The Taxation of Co-operatives in the United States

Due to the fact that co-operative organizations in the United States are organized and operated under conditions which are somewhat similar to those which prevail in Canada, a detailed description of their history and development is not included in this report. A number of Government officials, representatives of co-operative organizations and of other interested business groups were interviewed regarding the tax position with respect to co-operatives in the United States. These interviews served to supplement the information contained in official documents, legal decisions and reports which are referred to in the following, which deals specifically with the tax position of United States Co-operatives.

SECTION I

FARMERS' MARKETING AND FARMERS' SUPPLY TAX-EXEMPT CO-OPERATIVES

To obtain a tax-exempt status, co-operatives are required to apply for and obtain a Letter of Exemption from the Commissioner of Inland Revenue. Certain specified conditions must be complied with in order to obtain the Letter of Exemption. The purpose of the exemption is essentially to give aid to farmers.

According to the Internal Revenue Code (Section 101-12), Farmers, Fruit Growers, or like associations organized and operated on a co-operative basis, for marketing and for purchasing supplies and equipment are declared exempt if the conditions laid down are complied with. (Fishermen's associations and urban consumers' co-operative associations are not included.)

"Like" is taken to mean like in occupation and not like in organization and the Act is so administered.

Marketing may include harvesting, handling, manufacturing, packaging, and processing farm products for farmers.

The operation of oil wells has been held by the Bureau of Internal Revenue to be a proper activity of exempt associations.

Both agency-type organizations and organizations taking title to products received from, or sold to, patrons, may qualify as exempt associations.

Control of a non-exempt subsidiary corporation may have a detrimental effect upon the parent association's exemption; also rendering of services not directly related to marketing and purchasing may be grounds for loss of exemption.

Reserves must be reasonable and necessary, and may include reserves to meet capital expenditures of such associations such as to provide for the erection of buildings and installation of machinery and equipment for any necessary purpose.

Voting rights must be held by producers.

Dividends on capital shares must be limited.

Legal Structure must be co-operative in character.

Exempt marketing and purchasing associations must treat member and non-member patrons alike, and are required to allocate any net operating savings to all patrons both members and non-members on an equitable basis at least once annually.

Marketing associations may market products of non-members in an amount not to exceed the products marketed for members — and may purchase supplies and equipment for non-members in an amount not to exceed the supplies and equipment purchased for members provided the purchases for persons who are neither members nor producers do not exceed 15% of the value of all its purchases.

Accurate patronage records must be kept by the Associations and they may not place the responsibility upon their patrons by distributing savings only on the basis of sales tickets presented by patrons.

Organizations exempt from Federal Income Tax, including farmers' marketing and purchasing associations, must file an annual information return. (Treasury Department Form 990 May 1944).

Further details may be found in the following booklets :

"A Summary of the Restrictions applicable to Co-operative Elevator Associations exempted from Federal Income Taxes" by Charles E. Nieman. "Legal and Tax Problems of Farm Co-operatives" edited by the National Council of Farmer Co-operatives, January 1944. "Application of the Federal Income Tax Statutes to Farmers' Co-operatives" by George J. Wass and Daniel G. White, Farm Credit Administration, United States Department of Agriculture, Washington, D.C., November 1942.

An official publication of the Farm Credit Administration, United States Department of Agriculture, dated October 1944, by Mr. Kelsey B. Gardner.

"Suggestions relating to the filing of Annual Information Returns by Farmers' exempt Marketing and Purchasing Association", by The Farm Credit Administration, issued July 12th, 1944, also by Mr. Kelsey B. Gardner. This bulletin gives complete details as to the filing of Form 990 — Annual Return.

It was found that the Farm Credit Administration of the Department of Agriculture is very generous in its loans to co-operatives and that co-operatives are encouraged.

All amounts paid in patronage dividends or allocated are subject to income tax in the hands of the farmer in the year paid or credited.

SECTION II

URBAN CONSUMERS' CO-OPERATIVES

These are termed "non-tax-exempt" but the patronage dividend is allowed as a deductible expense.

Tax Treatment.

"Taxation of Consumers' Co-operatives, 1940", United States Department of Labour, April 1942 — This pamphlet gives on page 5 a complete review of taxes, Federal and State, paid by the consumers' co-operatives. There are also given on pages 6 and 7 tables showing —

Taxes Paid to States for 1940 by Co-operative Retail Associations,
as Percent of Sales.

Percent of Consumers' Co-operative Retail Associations Paying
Specified Taxes for 1940.

On page 9 a comparison is made with private business.

As far as the income tax treatment of co-operatives is concerned, distinction has to be made between State Tax Statutes and Federal Tax Statutes.

Corporation State Income Tax can be determined only by reference to administrative practice rulings and occasionally Court decisions. (See Page 16 of pamphlet). As in the case of Federal income tax, States have to face the problem of defining taxable income. Taxable income usually comprises net income allocated to reserves, or paid out as interest on share capital in accordance with statutory requirements.

Generally in the United States, consumers' associations are organized and operated by farmers and, as such, are generally exempted on account of their membership in the farming community. This means that consumer goods such as groceries and clothing bought by farmers are also exempt from taxation. In the State of Virginia, separate records must be kept by farmers' co-operatives of this business, and the usual corporation income taxes are paid thereon. For treatment given to consumers' co-operatives in the State of Wisconsin, California, North Dakota, Massachusetts, Kentucky and Tennessee, reference is made to pages 17 and 18. Attention is drawn to the peculiar tax treatment imposed upon consumers' co-operatives in the State of Massachusetts.

Factors Affecting Computation of Taxable Income.

Interest on share capital which is deducted from the net receipts of the association "prior to the distribution of patronage refunds", is added back in determining the taxable income. It is to be noted that urban consumers' co-operatives are treated "like ordinary corporations"; the interest on share capital cannot be deducted in computing taxable income, "the Treasury holding that they constitute essentially a fixed dividend". At one time the Bureau of Internal Revenue regarded these fixed interest charges as "interest on indebtedness", and allowed associations to deduct such amounts. This procedure was subsequently altered as indicated above.

A general rule for State and Federal Tax Department is to allow consumers' co-operatives and non-exempt farmers marketing and supply co-operatives to deduct patronage refunds in computing taxable income.

It is generally recognized that patronage refunds of consumers co-operatives are rebates, and not income to the association, and what is retained after payment of patronage dividends is a trading profit thereby being subjected to tax. Mention is made of the case of "Midland Co-operative Wholesale v. Commissioner of Internal Revenue, 44 B.T.A., No. 131, June 26, 1941, in which it was held 'that patrons' refunds not actually paid, but placed in a 'Patrons' equity reserve' which was earmarked for future payment to individual members, constituted patronage refunds and not reserves in the usual sense and was therefore not taxable."

It is to be noted that patronage refunds may be paid by any Company or any non-cooperative organization and that these are allowed as a deductible expense.

The following is a quotation from pamphlet mentioned above, page 21 :

"That the theory underlying the treatment of patronage refunds is applicable not only to co-operatives but to any other business that might be operated on the patronage-refund principle is indicated by the findings of a Federal court in the case of Uniform Printing & Supply Co. v. Commissioner of Internal Revenue, 88 Fed. (2d) 75. In this case it was asserted that the dividend returned on patronage by the company was essentially an overcharge and its return to the patron was in the nature of a discount and thus not taxable. It is probable that any private business which adopted a similar plan would be exempt from taxation on that part of profits actually distributed, if the bylaws of the organization obligated the enterprise to the return of such profits."

Non-member Business.

Generally, patronage refunds are paid to non-members. No discrimination is made between members and non-members. If there is discrimination patronage refunds which inured to members become subjected to taxation. The same theory applies when there is a difference in payment of patronage refunds to members of a co-operative. For further details see pages 21 and 22.

The Bureau of Internal Revenue recognizes the two following methods of treating non-member patronage dividends :

1. The Crediting of patronage dividends of non-members towards the purchase of voting stock.
2. The accumulating of a trust fund for non-member discounts until proof of purchases is received and other requirements are fulfilled.

"Any amounts not distributed eventually to non-member patrons, in some form or other, are clearly items properly subject to income tax."

SECTION III

LEGAL DECISION RE PATRONAGE DIVIDEND

In a recent tax decision of "The Tax Court of the United States", in the matter of United Co-operatives, Inc., Petitioner, v. Commissioner of Internal Revenue, Respondent, September 29, 1944, the opinion of Judge Kern is worth analyzing.

Contention of the Petitioner was :

1. Patronage dividends were not taxable income. (No claim was made for any other exemption).

It is to be noted that Petitioner was incorporated under General Corporation Law of Indiana. The Court did not attach any importance to the form of organization. It only found whether facts in the case warranted the claim of the Petitioner to the effect that it was organized on a co-operative basis. The Court found that :

1. The member stockholders were each equally represented on the board of directors, regardless of the amount of stock held.
2. The return on its invested capital is limited to 8 per cent.
3. Each member-stockholder has only one vote, regardless of the number of shares held.
4. The capital necessary to the conduct of petitioner's business is furnished by its members in proportion to the member's patronage.

The Court came to the conclusion that Petitioner was a co-operative independent of its form of organization. The principle affirmed of allowing patronage dividends as deductible expenses was limited —

"to those cases in which the right of patrons to such dividends arises by reason of the corporation charter, or bylaws, or some other contract, and does not depend upon some corporate action taken subsequent to its receipt of the money later so distributed, such as the action of the corporation's officers or directors. This limitation recognizes that if the money later distributed to patrons is received by the corporation without a legal obligation existing at the time of its receipt to later distribute it, it must

be considered as the gross income of the corporation, and, since there is no deduction permitted by statute of the amounts later distributed to patrons, it is taxable as such." See *Midland Co-operative Wholesale, supra*; *Fruit Growers Supply Co.*, 21 B.T.A. 315; *affd.*, 56 Fed. (2d) 90.

The Court held that patronage dividends could not be determined "until after the petitioner's board of directors had acted with regard to dividends and reserve, or had refrained from acting". The following principle must not be discarded in the definition of true patronage dividends.

"If, for example, the board of directors authorized the payment of 8 percent dividends on the common stock, the net income to be distributed to its patrons would be correspondingly diminished. On the other hand if the directors determined that no dividends should be paid on its stock and therefore took no action with regard to declaring such dividends, the patrons were entitled to all of the net income of petitioner.

The right of the petitioner corporation to allocate a part of its receipts to a reserve for depreciation need not concern us. The establishment and maintenance of a depreciation reserve and periodic additions thereto in reasonable amounts constitute a proper operational expense, and the net income of petitioner available under its bylaws for distribution to its patrons would have been calculated by subtracting from gross income the amounts reserved for depreciation even without the express provisions of article VI of the bylaws.

However, the right of petitioner's board of directors to declare dividends upon its common stock is radically different. These dividends, if paid, would be paid out of net income. If dividends were not paid, then the net income of petitioner available for distribution to its patrons would be accordingly greater. The choice of whether so much of its net income as equalled 8 per cent of the par value of its common stock should be distributed to its stockholders as a dividend or to its patrons as rebates was in the corporation. Therefore, it cannot be said that all of the money eventually distributed to its patrons as so-called patronage dividends was received by petitioner with a legal obligation existing at the time of its receipt to later so distribute it.

We conclude that petitioner's patrons were entitled by reason of its bylaws to that part of the so-called patronage dividends distributed to them which was in excess of 8 percent of the par value of petitioner's common stock outstanding and to that extent these patronage dividends were properly excluded from the taxable income of petitioner. However, that part of these patronage dividends which could have been distributed in the discretion of petitioner's board of directors as dividends upon petitioner's common stock must be considered as the property of petitioner and taxable to it as its income."

It appears also from the decision that savings of the members reinvested in the co-operative were considered as actual cash payment.

SECTION IV

CO-OPERATIVES AND ANTITRUST LAWS

Reference is made to "Legal and Tax Problems of Farm Co-operatives", pages 11-18, covering the limitations of operations of farm co-operatives which wish to retain their tax exemption status as such, and also to pages 36 to 49, which give general discussions of the applicability of Antitrust Laws and Robinson-Patman Act to farmers' co-operatives.

Antitrust Laws apply to co-operatives with certain qualifications as for the Robinson-Patman Act which, generally speaking, "prohibits the direct or indirect discrimination in price on the part of the seller to buyers of commodities of like grade and quality where the effect of discrimination may be to substantially lessen competition. It prohibits sellers from engaging in discriminatory practices which would tend to injure or destroy other dealers in competition with the seller, and it further prohibits a seller from discriminatory price practices between customers of the seller when the customers are in competition with each other."

The Act, it is claimed, is applicable to co-operatives as a result of decisions rendered by Courts with respect to other trading Companies. The author of the article on the application of the Robinson-Patman Act states farmers' co-operatives should be careful in drafting their marketing agreements in order not to make any undue discrimination practices between their customers, buyers or sellers.

SECTION V

CREDIT UNIONS

Some of the more significant facts regarding credit unions are given below, as taken from The Federal Credit Union Act, amended to June 15, 1940, and as contained in Farm Credit Administration circular No. 22.

Definitions

A Federal credit union is hereby defined as a co-operative association organized in accordance with the provisions of this chapter for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes.

Powers

A Federal credit union shall have succession in its corporate name during its existence and shall have power:

To make loans with maturities not exceeding two years to its members for provident or productive purposes upon such terms and conditions as this chapter and the bylaws provide and as the credit committee may approve, at rates of interest not exceeding 1 per centum per month on unpaid balances (inclusive of all charges incident to making the loan). A borrower may repay his loan, prior to maturity, in whole or in part on any business day;

To invest its funds (a) in loans exclusively to members; (b) in obligations of the United States of America, or securities fully guaranteed as to principal and interest thereby; (c) in accordance with rules and regulations prescribed by the Governor, in loans to other credit unions in the total amount not exceeding 25 per centum of its paid-in and unimpaired capital and surplus; (d) and in shares or accounts of Federal savings and loan associations;

To make deposits in national banks and in State banks, trust companies, and mutual savings banks operating in accordance with the laws of the State in which the Federal credit union does business;

To borrow (from any source) in an aggregate amount not exceeding 50 per centum of its paid-in and unimpaired capital and surplus: Provided, That any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital, subject to such rules and regulations as may be prescribed by the Governor.

Membership

Federal credit union membership shall consist of the incorporators and such other persons and incorporated and unincorporated organizations, to the extent permitted by rules and regulations prescribed by the Governor, as may be elected to membership and as shall, each, subscribe to at least one share of its stock and pay the initial instalment thereon and the entrance fee; except that Federal credit union membership shall be limited to groups having a common bond of occupation, or association, or to groups having a common bond of occupation, or association, or to groups within a well-defined neighborhood, community, or rural district. (June 26, 1934, c. 750, 9, 48 Stat. 1219.)

Members' Meetings

No member shall be entitled to vote by proxy, but a member other than a natural person may vote through an agent designated for the purpose. Irrespective of the number of shares held by him, no member shall have more than one vote. (June 26, 1934, c. 750, 10, 48 Stat. 1219.)

Directors

Among other things they shall determine from time to time the maximum number of shares that may be held by any individual; and, subject to the limitations of this chapter, determine the interest rates on loans and the maximum amount that may be loaned with or without security to any member.

Credit Committee

No loan in excess of \$100. shall be made without adequate security and no loan shall be made to any member in excess of \$200. or 10 per centum of the Federal credit union's paid-in and unimpaired capital and surplus, whichever is greater.

Reserves

All entrance fees and fines provided by the bylaws and 20 per centum of the net earnings of each year, before the declaration of any dividends, shall be set aside, subject to terms and conditions specified in the bylaws, as a reserve fund against possible bad loans. (June 26, 1934, c. 750. 12, 48 Stat. 1221.)

Dividends

At the annual meeting a dividend may be declared from the remaining net earnings on recommendation of the board of directors, which dividend shall be paid on all paid-up shares outstanding at the end of the preceding fiscal year.

Taxation

The Federal credit unions organized hereunder, their property, their franchises, capital reserves, surpluses, and other funds, and their income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that any real property and any tangible personal property of such Federal credit unions shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed.

The following summary of activities of credit unions are taken from Bulletin No. 797 of United States Department of Labor:

"The 9,000 active credit unions in the United States made more than 1½ million loans to their 3 million members in 1943, amounting to considerably over 211 million dollars. On this business, earnings were made exceeding 6½ million dollars, from which dividends on share capital amounted to \$5,335,891. Total assets of these co-operative credit associations amounted to over 362 million dollars.

As a result of a combination of wartime factors (increased earnings of workers, lessened need for credit, control of instalment buying, dearth of certain high-cost consumer goods, etc.) this branch of the co-operative movement has been showing a downward trend since 1941, after a hitherto unbroken rise.

As compared with 1942, all of the above totals except assets showed a decrease. The membership fell 3.3 percent, business (loans granted) 15.4 percent, and earnings 37.5 percent. On the other hand, share capital increased 6.9 percent and total assets 6.3 percent.

OPERATIONS OF CREDIT UNIONS IN 1942 AND 1943

All States	Year	Number of associations reporting	Number of members	Number of loans made during year	Amount of loans	
					Made during year	Outstanding end of year
	1943	9,079	3,040,682	1,656,358	\$211,469,725	\$123,479,595
	1942	9,470	3,144,603	1,945,413	250,000,284	148,771,572

ASSETS AND EARNINGS OF CREDIT UNIONS, 1942 AND 1943

All States	Year	Number of associations reporting	Paid-in Share Capital	Total Assets	Net Earnings
	1943 1942	9,079 9,470	\$309,122,657 288,998,709	\$362,066,401 340,347,742	\$6,682,465 10,701,805

Development of State and Federal Credit Unions, 1936 to 1943

Item and Year		Total associations
Number of credit unions		
1936	.....	5,352
1937	.....	6,292
1938	.....	7,314
1939	.....	8,326
1940	.....	9,479
1941	.....	10,456
1942	.....	10,602
1943	.....	10,470

Membership:

1936.....	1,170,445
1937.....	1,588,236
1938.....	1,927,226
1939.....	2,405,377
1940.....	2,815,558
1941.....	3,529,097
1942.....	3,144,603
1943.....	3,040,682

Amount of loans during year

1936.....	\$100,199,695
1937.....	147,210,321
1938.....	180,847,548
1939.....	238,903,457
1940.....	306,092,625
1941.....	362,291,005
1942.....	250,000,284
1943.....	211,469,725

Total assets:

1936.....	\$ 83,070,952
1937.....	115,399,287
1938.....	147,156,416
1939.....	192,723,812
1940.....	252,293,141
1941.....	322,214,816
1942.....	340,347,742
1943.....	362,066,401

SECTION VI

MUTUAL INSURANCE COMPANIES

Every Mutual Insurance Company other than life or a marine insurance company is subject to Federal Income Tax. The tax is computed differently in the case of a company which is an inter-insurer or a reciprocal underwriter. As it is very difficult to state briefly the methods of computing the tax, the following extract from an official circular sets these out. "Sec. 165. Mutual Insurance Companies Other Than Life Or Marine

(a) Exempt Companies. — Section 101 (11) is amended to read as follows:

"(11) Mutual insurance companies or associations other than life or marine (including interinsurers and reciprocal underwriters) if the gross amount received during the taxable year from interest, dividends, rents and premiums (including deposits and assessments) does not exceed \$75,000;"

"(b) Imposition of Tax. There shall be levied, collected and paid for each taxable year upon the income of every mutual insurance company (other than life or a marine insurance company and other than an interinsurer or reciprocal underwriter) a tax computed under paragraph (1) or paragraph (2)

whichever is the greater and upon the income of every mutual insurance company (other than a life or a marine insurance company) which is an interinsurer or reciprocal underwriter, a tax computed under paragraph (3):

“(1) If the corporation surtax net income is over \$3,000 a tax computed as follows:

“(A) Normal Tax. — A normal tax on the normal-tax net income, computed at the rates provided in section 13 or section 14 (b), or 30 per centum of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser.

“(2) If for the taxable year the gross amount of income from interest, dividends, rents, and net premiums, minus dividends to policy holders, minus the interest which under section 22 (b) (4) is excluded from gross income, exceeds \$75,000, a tax equal to the excess of

“(A) 1 per centum of the amounts so computed, or 2 per centum of the excess of the amount so computed over \$75,000, whichever is the less, over

“(B) the amount of the tax imposed under Subchapter E of Chapter 2.

“(3) In the case of an interinsurer or reciprocal underwriter, if the corporation surtax net income is over \$50,000, a tax computed as follows:

“(A) Normal Tax. — A normal tax on the normal-tax net income, computed at the rates provided in section 13 or section 14 (b), or 48 per centum of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

“(B) Surtax. — A surtax on the corporation surtax net income, computed at the rates provided in section 15 (b), or 32 per centum of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

“(4) Gross Amount Received Over \$75,000 But Less Than \$125,000. If the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) is over \$75,000 but less than \$125,000, the amount ascertained under paragraph (1), paragraph (2) (A), and paragraph (3) shall be an amount which bears the same proportion to the amount ascertained under such paragraph, computed without reference to this paragraph, as the excess over \$75,000 of such gross amount received bears to \$50,000.

“(b) Definition of Income, Etc. — In the case of an insurance company subject to the tax imposed by this section —

“(1) Gross Investment Income. — ‘Gross investment income’ means the gross amount of income during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets to the extent provided in section 117;

“(2) Net Premiums. — ‘Net premiums’ means gross premiums (including deposits and assessments) written or received on insurance contracts during the taxable year less return premiums and premiums paid or incurred for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends upon the experience of the company or the discretion of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (3);

“(3) Dividends to Policyholders. — ‘Dividends to policyholders’ means dividends and similar distributions paid or declared to policyholders. The term ‘paid or declared’ shall be construed according to the method regularly employed in keeping the books of the insurance company;

"(4) Net Income. — The term 'net income' means the gross investment income less —

"(A) Tax-free Interest. — The amount of interest which under section 22 (b) (4) is excluded for the taxable year from gross income;

"(B) Investment Expenses. — Investment expenses paid or accrued during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this subparagraph shall not exceed one-fourth of 1 per centum of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which net income computed without any deduction for investment expenses allowed by this subparagraph, or for tax-free interest allowed by subsection (b) (4) (A), exceeds $3\frac{3}{4}$ per centum of the book value of the mean of the invested assets held at the beginning and end of the taxable year;

"(C) Real Estate Expenses. — Taxes and other expenses paid or accrued during the taxable year exclusively upon or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder of a company upon his interest as shareholder; which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes;

"(D) Depreciation. — A reasonable allowance, as provided in section 23 (1), for the exhaustion, wear and tear of property, including a reasonable allowance for obsolescence;

"(E) Interest Paid or Accrued. — All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter.

"(F) Capital Losses. — Capital losses to the extent provided in section 117 plus losses from capital assets sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders. Capital assets shall be considered as sold or exchanged in order to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not greater than the excess, if any, for the taxable year of the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid over the sum of interest, dividends, rents, and net premiums received. In the application of section 117 (e) for the purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser :

"(i) the corporation surtax net income (computed without regard to gains or losses from sales or exchanges of capital assets); or

"(ii) losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

“(c) Rental Value of Real Estate. — The deduction under subsection (b) (4) (C) or (b) (4) (D) of this section on account of any real estate owned and occupied in whole or in part by a mutual insurance company other than life or marine, shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

“(d) Amortization of Premium and Accrual of Discount. — The gross amount of income during the taxable year from interest, the deduction provided in subsection (b) (4) (A), and the credit allowed against net income in section 26 (a) shall each be decreased by the appropriate amortization of premium and increased by the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures or other evidences of indebtedness held by a mutual insurance company other than life or marine. Such amortization and accrual shall be determined (1) in accordance with the method regularly employed by such company, if such method is reasonable, and (2) in all other cases, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary.

“(f) Double Deductions. — Nothing in this section shall be construed to permit the same item to be twice deducted.

“(g) Credits Under Section 26. — For the purposes of this section, in computing normal tax net income and corporation surtax net income, the credits provided in section 26 shall be allowed in the manner and to the extent provided in sections 13 (a) and 15 (a).”

(c) Cross Reference. — For stamp tax on policies written by foreign insurers, see section 502 of this Act.

SECTION VII

GENERAL

Some co-operatives prefer not to apply for a tax-exempt status preferring to be free to operate without restriction as to non-member business. In such cases the amounts retained after refunds are said to be usually small and the tax little.

Some of the co-operative leaders were of the opinion that too much latitude was allowed in setting up Reserves and that in some cases this had gone to an unreasonable and unnecessary extent.

The general opinion was that the tax should fall on the individuals in both co-operatives and corporations and that any existing inequity should be remedied not by taxing co-operatives but by relieving corporations.

There is a growing feeling on the part of non-cooperatives that tax-exempt co-operatives enjoy an unfair advantage. This, however, has not yet reached the same point as in Canada except in certain sections of the country and with respect to certain commodities. The National Tax Equality Association was formed and is sponsored by the non-cooperatives for the purpose of publicizing this alleged unfairness and bringing about sufficient weight of public opinion to have the law amended in a way that will remove what the association regards as an inequity.

APPENDIX E

**The Development and Operations of Credit Unions,
(Caisses Populaires) in Canada**

In order to appraise the development and operations of Co-operative Societies organized for the purpose primarily of providing credit for their members, it is desirable to deal briefly with the historical background and some of the reasons which led to the advent of this type of organization.

In Ancient Greece Xenophon planned the organization of a banking society to which all Athenians might subscribe capital and share in the earnings. In Italy during the fifteenth century there were associations for providing credit to needy people. According to Desjardins these associations were originally based on charity and donations by wealthy people, but later the associations paid interest on deposits of either permanent or temporary nature. These and similar efforts made to provide short term credit for needy people who were not in a position to use the services of bankers or other money leaders. It was not, however, until the middle of the nineteenth century that Co-operative Credit Societies in Europe were organized on a basis similar to that of Credit Unions of the present time. Since 1850 Co-operative Credit Societies or Credit Unions have spread throughout the world and most countries appear to provide legislation for their incorporation and operation.

Co-operative leaders and thinkers of the early nineteenth century, like Owen, the founders of the first Co-operative Society at Rochdale, and others, gave consideration to Credit services on a Co-operative basis, but while their ideas were later reflected in the organization of Co-operative Credit Societies, no definite plans were evolved. Two Germans, Schulze-Delitzsch and Raiffeisen were the first to organize successful Co-operative Credit Societies in Europe and many of the principles and methods of present day Credit Unions can be traced to the influence of these two men.

Schulze-Delitzsch organized his first successful Co-operative Credit Society at Eilenburg, Germany, in 1850, primarily to serve workers and small tradesmen. Provision was made for the payment on share account in small weekly instalments, reserves up to 10 per cent of the capital stock, careful selection of membership with reference to their individual character, no state subsidy or large deposits from wealthy people, loan service at low rates, no dividends on shares, education work amongst members, membership confined to small groups, employees serving the society without pay, and loans being granted only for "provident or productive" purposes. Raiffeisen formed his Societies primarily in rural areas. Both groups of Societies were subsequently organized into federations.

A few years later two Italians, Luzatti and Wullemburg organized somewhat similar Co-operative Credit Societies, but added one or two important principles. The Italian Societies provided for limited liability, shares of a small par value, a larger board for controlling the activities of each society, a small entrance fee, repayment of certain loans by instalments, a limit on the amount of share holdings of each member in order to prevent undue influence due to large share holdings, and that one-third of the Board of Directors be elected annually.

In Canada there is a record of "The Farmers Bank of Rustico" in Prince Edward Island which was subsequently closed because of certain regulations respecting banks. An unsuccessful attempt was made to pass a Co-operative Credit Bill in Massachusetts in 1871, but after 1890 some Societies were formed in Boston which included some of the features of European Co-operative Credit Societies.

The first Credit Union, (*Caisse Populaire*), on this continent was organized in Levis, Quebec, in 1900, by Alphonse Desjardins. The first subscription of capital in the Society amounted to \$26.40. This Credit Union has, with some variations because of changes or differences in social and economic conditions, been the model for the extensive development of Credit Unions, both in Canada and the United States. The Credit Union at Levis and two others were organized by Desjardins without special enabling legislation. In 1906 the province of Quebec passed the Co-operative Syndicates Act, providing for the organization of both Credit Unions and Co-operative purchasing associations. It is interesting to note that the original Raiffeisen Credit Societies not only provided credit services for their members, but carried on co-operative purchasing as well, and this was reflected in the Quebec legislation. The Quebec law governing Credit Unions still reflects this practice, but other provinces have provided legislation for incorporating Credit Unions distinct from that relating to other types of Co-operatives.

In 1907 Desjardins was the main witness before a special Committee of the Dominion Parliament which was giving consideration to a Dominion Act respecting Industrial and Co-operative Societies. The provisions of the suggested legislation were similar to those of the Quebec Syndicates Act passed in 1906. The proposed Dominion Act, while approved by the House of Commons, was defeated in the Senate. Two separate bills applying to Credit Unions and Co-operative Associations respectively, were sponsored by Desjardins in 1910, but the co-operative purchasing bill was defeated and no action was taken respecting the proposed Credit Union Act. Further attempts were made to secure the enactment of Dominion Credit Union Legislation in 1911 and 1914, but without success. Since that time no further attempts have been made to secure Dominion legislation. The necessary legislation has since been passed by all provinces for the incorporation and administration of Credit Unions operating within the province concerned. In Manitoba Credit Unions are incorporated under a special section of the Companies Act. In 1908 and 1909 Desjardins assisted the States of Massachusetts and New Hampshire in drafting Credit Union legislation and the resulting Acts formed a model for similar legislation in every State in the Union.

Canadian Credit Union development falls into two fairly distinct phases. The first is associated with Desjardins and the early development in Quebec and in nearby Ontario, although in the latter Province satisfactory Credit Union legislation was not provided until recent years. The second phase coincides, to some extent, with the co-ordination of Credit Union activity in the Province of Quebec through the organization of *La Fédération des Caisses Populaires* Desjardins and the inauguration in the Maritime Provinces of an adult education program designed to encourage interest in Credit Unions. As a result of this program Credit Union legislation was enacted in the Maritimes in the early thirties and a considerable number of Credit Unions were organized. This development, together with the consolidation and further growth of Credit Unions in Quebec, contributed to the spread of the movement to other provinces. The development was also assisted by the depressed conditions in many areas during the thirties and the belief that Credit Unions provided a useful method of encouraging people with low incomes to build up savings and provide themselves with a source of credit at reasonable rates, thus supplementing the activities of other lending institutions.

In passing provincial Credit Union legislation, Credit Union leaders and government officials in other Provinces were in a position to observe how the legislation had worked in Quebec and to take advantage of the experience of credit unions in that Province and in the many states in the Union which had enacted similar legislation. As a result Credit Union legislation and practices throughout Canada are fairly uniform.

The following is a statistical summary of the development of Credit Unions in Canada from 1900 to 1943, inclusive.

TABLE I*

Year	Credit Unions No.	Members No.	Assets \$
1900.....	1	.....	26
1915.....	91	23,614	2,027,728
1920.....	113	31,752	6,306,965
1925.....	122	33,279	8,261,515
1930.....	194	45,767	11,178,810
1935.....	277	52,045	10,173,997
1936.....	331	62,068	11,115,800
1937.....	441	77,177	13,769,468
1938.....	645	111,012	16,835,672
1939.....	844	151,554	20,680,594
1940.....	1,167	201,137	25,069,685
1941.....	1,314	238,463	31,230,813
1942.....	1,486	295,984	43,971,925
1943.....	1,780	374,069	69,219,654

(* Economics Division : Dominion Department of Agriculture).

The following table shows the number of Credit Unions in the different Provinces, together with an estimate of the number serving rural, as compared with urban residents. It must be remembered that there is some overlapping in a good many cases.

TABLE II *

Credit Unions			
Province	Total	Urban	Rural
	No.	No.	No.
Prince Edward Island.....	47	5	42
Nova Scotia.....	204	80	124
New Brunswick.....	145	48	97
Quebec.....	775	131	644
Ontario.....	163	141	22
Manitoba.....	80	20	60
Saskatchewan.....	128	35	93
Alberta.....	129	59	70
British Columbia.....	109	67	42
Canada.....	1,780	586	1,194

Percentage of assets			
Province	Total %	Urban %	Rural %
Prince Edward Island.....	100	11	89
Nova Scotia.....	100	73	27
New Brunswick.....	100	41	59
Quebec.....	100	39	61
Ontario.....	100	98	2
Manitoba.....	100	28	72
Saskatchewan.....	100	25	75
Alberta.....	100	77	23
British Columbia.....	100	82	18
Canada.....	100	43	57

* Economics Division : Dominion Department of Agriculture.

A Credit Union (*Caisse Populaire*) may be defined as an incorporated group of people with some well defined tie of association, occupation or residence, who pool their savings in the form of shares and deposits and out of the fund so accumulated, make loans to members only for purposes which are considered to be provident or productive.

For the purpose of carrying out its objects, a Credit Union is usually given the following powers by the legislation under which it is incorporated.

- (a) To receive the savings of its members as loans or deposits.
- (b) To make loans to its members.
- (c) To make loans to other Credit Unions or Co-operatives which are members. (In Quebec, school districts, municipalities, and church parishes are members of local *Caisses*).
- (d) Deposit money in chartered banks and other specified organizations authorized to receive money on deposit.
- (e) Invest money in government securities and in other prescribed forms of securities up to such proportion of its capital and under such other conditions as may be specified in the Act.
- (f) To borrow money with the consent of the Directors, of the members and of the Registrar, under such conditions as may be specified in the legislation.
- (g) To draw, make, accept, endorse, execute and issue promissory notes, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments.

The affairs of a Credit Union are administered by three committees appointed by and from the members, namely, a Board of Directors, a Credit Committee and a Supervisory Committee.

The Board of Directors must rule on all applications for membership, each application being endorsed by at least one Director. In addition, the Directors determine the maximum individual share holding and the maximum individual loan which may be made with or without security, subject to the provisions of the Act; determine interest rates on loans and deposits, declare dividends: (subject to the approval of the general meeting); have charge of investments, other than loans to members; fix the form and amount of security of officers and employees handling money; and fill vacancies on the Board of Directors or of the Credit Committee until the next annual meeting.

The legislation requires the Credit Committee to pass on all loans and determine the rate of interest and security in each case. The Directors may fix the maximum rate which may be charged from time to time.

The Supervisory Committee examines the books and accounts at least quarterly, makes an annual audit and reports thereon to the annual meeting. The Supervisory Committee may also suspend any officer and call a meeting of the Credit Union to report on such suspension.

There are thus three Committees in each Credit Union, with well-defined functions. The exceptionally low loss record of Credit Unions is probably partly due to this three-way system of checks, balances and administration. Another factor is that the tie of residence, association or community which must form the basis of Credit Union membership, seems to be conducive to a careful selection of members and results in a certain similarity of credit prob-

lems. Another factor is that of the loyalty of a Credit Union member to his group. When he borrows money from his Credit Union he tends to remember that he is borrowing the money of his friends and neighbors.

Another factor responsible for the low loss rates of Credit Unions is undoubtedly that all Credit Union legislation makes provision for at least an annual inspection of each Credit Union by the Registrar or other government official concerned with the administration of the legislation. In Quebec the inspection is undertaken by La Fédération Des Caisses Populaires Desjardins. This organization receives an annual grant from the Government of Quebec to defray the cost of the service.

Credit Union officials endeavour to encourage a systematic plan of saving on the part of the members. Where the member is in receipt of regular income, payments on shares in regular instalments are favored. As an alternative, regular deposits are recommended. Farmers who are members of Credit Unions are encouraged to make payments on shares and/or deposits from their main sources of income, which may be seasonal. The policy is to encourage a systematic plan of savings which is flexible enough to meet the needs of members with low incomes and can be used by those who are able to make savings in larger amounts. In general, the object is to develop a system of thrift that is adaptable to the group comprising the Credit Union.

Most of the loans made by credit unions are for the purpose of meeting current expenses of the members, although as the resources increase, mortgage loans may be made. The following analysis of the purposes for which loans were made by Credit Unions in Saskatchewan in 1943 is suggestive of the type of service rendered by Credit Unions generally.

TABLE III *

Purpose of Loans	No. of Loans	Amount of Loans	Per cent of Loans
Consolidation of Debts.....	904	\$120,457.07	14.7
Farm Machinery & Repairs.....	673	111,299.55	13.6
Investments (Victory Bonds).....	317	66,847.63	8.1
Home Improvements & Building.....	272	66,123.27	8.0
Harvest & Threshing.....	505	53,797.42	6.6
General Farming Expenses.....	413	49,813.06	6.1
Autos, Trucks.....	192	46,709.23	5.7
Medical, Dental & Hospital.....	524	40,576.35	4.9
Livestock.....	232	30,906.58	3.8
General Household.....	444	28,256.19	3.4
Seed & Seeding.....	344	25,420.00	3.1
Merchandise.....	102	22,531.56	2.7
Taxes.....	180	18,202.02	2.2
Furniture & Clothing.....	180	15,969.25	1.9
Vacation.....	210	12,856.50	1.6
Insurance.....	122	8,403.04	1.0
Education.....	42	3,310.22	.4
Miscellaneous.....	835	100,164.01	12.2
128 Credit Unions — Totals.....	6,491	\$821,642.95	100.0

* Saskatchewan : Report of the Department of Co-operation.

Credit Unions and also Co-operative Associations have formed federations. These act as depositories for surplus funds of their members, and lend money to them in case of need. The federations thus function as central Credit Unions, or to some extent as banks. The Saskatchewan Co-operative Credit Society is an example of this type. Another type of federation is for the purpose of providing educational, accounting, inspection and advisory services for the Credit Unions which are members. La Fédération des Caisses Populaires Desjardins is an example of this type of federation.

Standard rules or bylaws which must apply to all Credit Unions are usually prescribed with the approval of officials entrusted with the administration of Credit Union legislation in the various Provinces. These standard rules or bylaws deal with such matters as the procedure to follow regarding the admission of members, purchase and withdrawal of shares, deposits and their withdrawal entrance fees, fines for failure to meet loan or share instalments. The use of pass books, the use of loan application forms, the conduct of meetings, nominations and elections, detailed instructions respecting the duties of officers, the deposit of monies and the manner in which payments shall be made, the amount of cash reserve which must be kept on hand to meet withdrawals, etc. Each Credit Union, with the consent of the Registrar or other government official concerned, will adopt its own supplemental rules or bylaws regarding such matters as the number of Directors, the date on which the annual meeting shall be held, the time at which interest shall be paid on deposits, etc. While there is some variation in the standard bylaws or rules as between different provinces, the operating and administrative practices outlined are in general the same just as the main features of Credit Union legislation are the same in every Province.

The following table is a statistical summary showing the membership of Credit Unions in each Province, total assets, the amount deposited in the form of shares, as compared with deposits, loans granted during the last financial year, and total loans granted since inception.

TABLE IV †

Province	Credit Unions	Members	Total Assets	Shares
	No.	No.	\$	\$
P. E.I.....	47	6,116	207,082	152,536
N.S.....	204	28,850	1,469,281	1,317,744
N.B.....	145	23,446	1,142,115	1,031,240
Que.				
Desjardins *.....	765	237,078	60,501,514	4,652,638
Other.....	10	1,930	153,279	61,226
Ont.....	163	32,672	3,483,790	1,354,714
Man.....	80	8,625	488,288	200,085
Sask.....	128	14,600	797,003	483,863
Alta.....	129	10,066	469,021	355,077
B.C.....	109	10,686	503,221	448,817
Canada, 1943.....	1,780	374,069	69,219,654	10,057,890
Canada, 1942.....	1,486	295,984	43,971,925	7,141,756

* Six Caisses Régionales with assets of \$11,215,203 are not included here.

† Economics Division : Dominion Department of Agriculture.

Province	Deposits	Loans granted in last financial year	Loans granted since inception
	\$	\$	\$
P.E.I.	41,399	115,773	633,840
N.S.	38,984	1,065,812	6,719,911
N.B.	46,866	872,321	3,194,456
Que.			
Desjardins *	52,989,247	10,000,000	122,061,694
Other.....	28,914	84,015	331,740
Ont.	1,722,511	2,426,473	16,519,903
Man.....	266,977	395,092	1,076,679
Sask.....	280,096	824,217	1,935,650
Alta.....	87,021	562,028	1,445,591
B.C.....	20,970	600,561	1,077,573
Canada, 1943.....	35,522,985	16,946,292	154,997,037
Canada, 1942.....	33,644,782	10,926,085	137,943,452

* Six Caisses Régionales with assets of \$11,215,203 are not included here.



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Can Report. 1945.
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